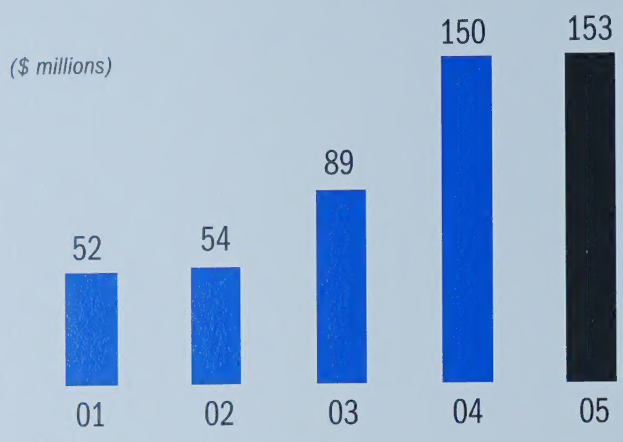
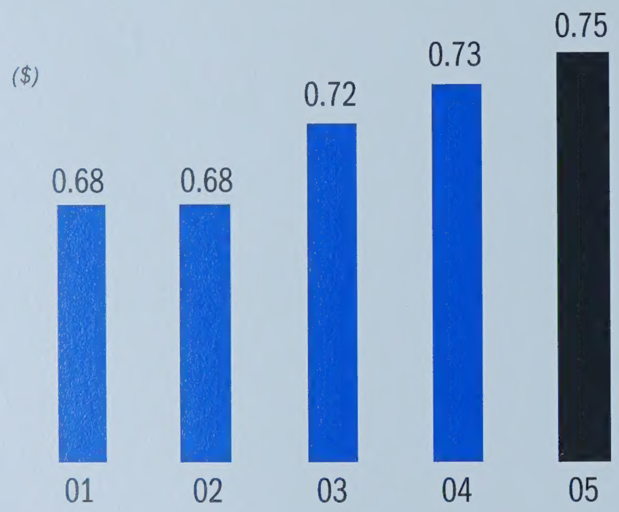
inter pipeline

ANNUAL REPORT 2005

Funds From Operations

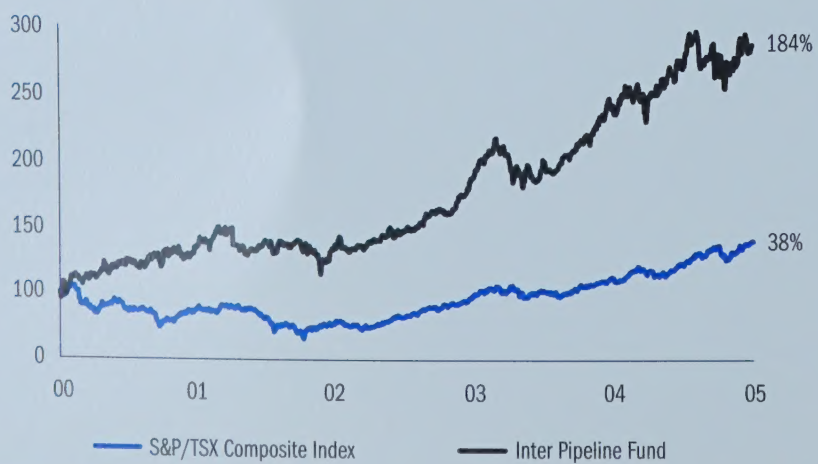


Cash Distributions Per Unit



Five Year Relative Performance

Includes reinvestment of distributions



Diversified Assets
Expanding Opportunities
Stable Distributions

Inter Pipeline is a vital part of western Canada's energy sector. We have a strong pipeline and NGL presence in the oil sands, conventional oil and natural gas producing regions. Inter Pipeline has extended its geographical reach with the acquisition of petroleum and petrochemical bulk liquid storage businesses in the United Kingdom, Germany and the Republic of Ireland. Our extensive asset base makes Inter Pipeline one of the most diversified energy infrastructure businesses in the Canadian Income Fund sector.

Contents

Conventional Oil Pipelines

Four petroleum pipelines located throughout southern Alberta and southwest Saskatchewan

NGL Extraction

One of the largest natural gas liquids extraction businesses in North America

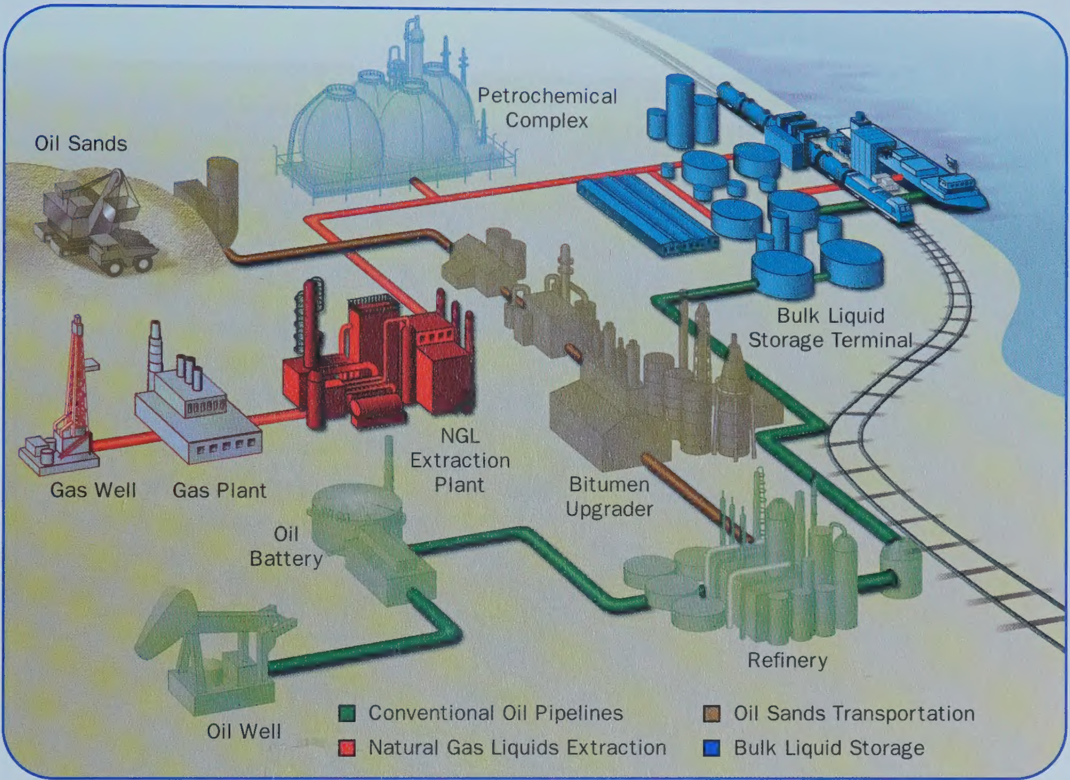
Oil Sands Transportation

The Cold Lake pipeline system is the largest transporter of Cold Lake area bitumen production

Bulk Liquid Storage

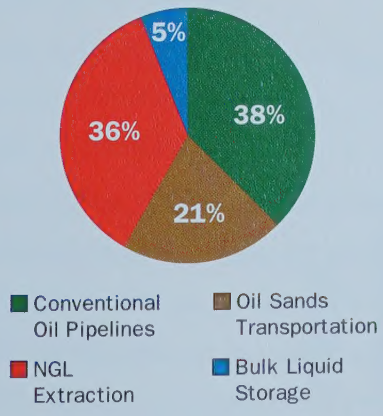
One of the largest independent bulk liquid storage businesses in western Europe

Inter Pipeline Connects Across the Energy Value Chain

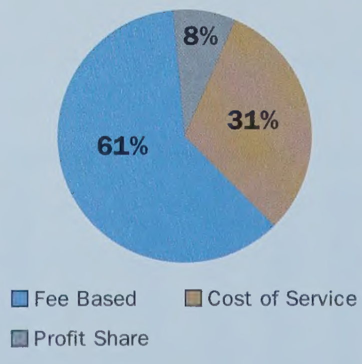


Inter Pipeline Fund is a major petroleum transportation, natural gas liquids extraction and storage business based in Calgary, Alberta, Canada. Inter Pipeline owns and operates a diversified suite of energy infrastructure assets in western Canada and western Europe. This asset portfolio spans the energy value chain; transporting crude oil, extracting natural gas liquids and providing storage for petroleum and petrochemical products.

2005 EBITDA by Business Segment

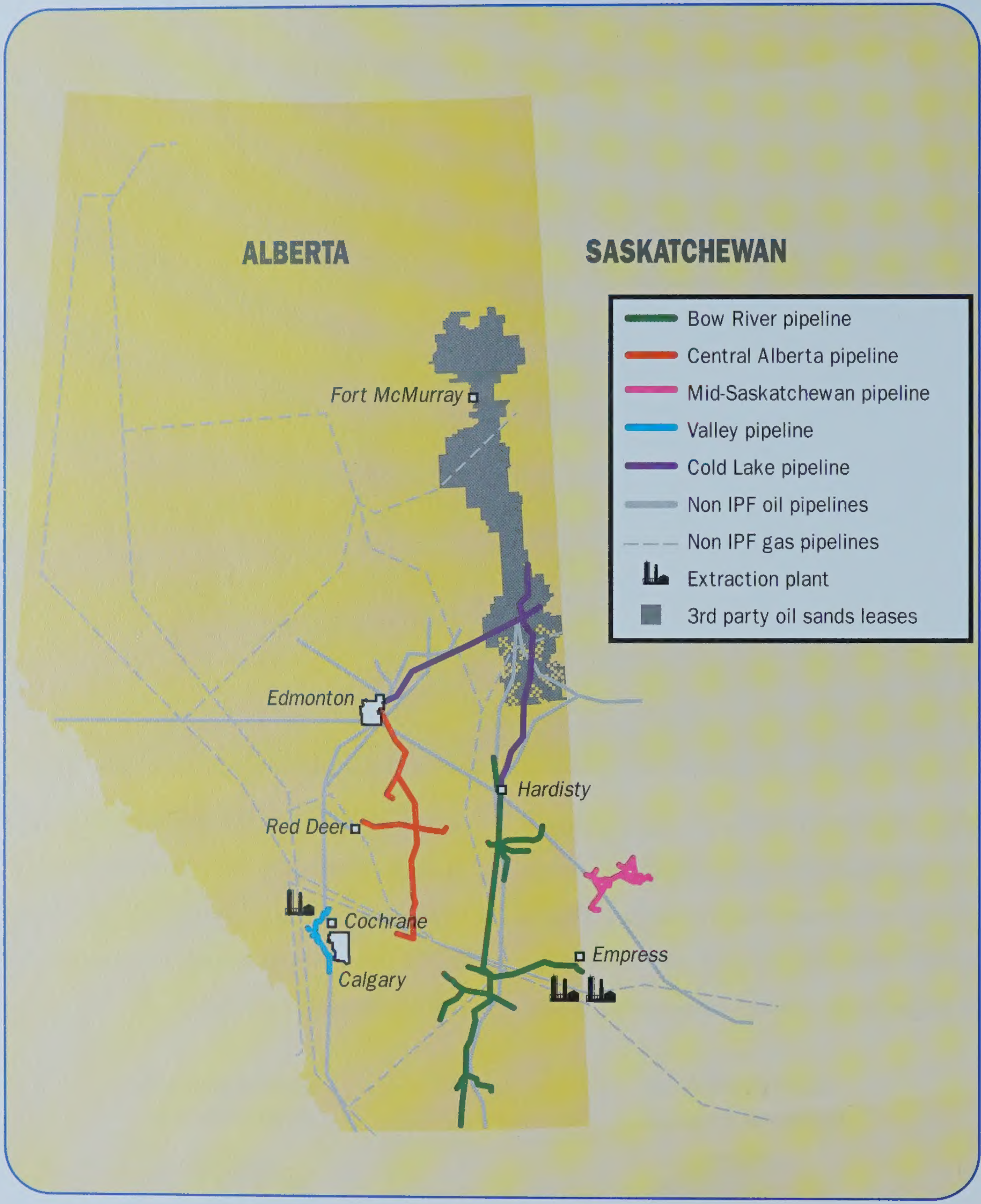


2005 EBITDA by Contract Type



Bulk liquid storage operations from October 4, 2005 to December 31, 2005.

Inter Pipeline in Western Canada

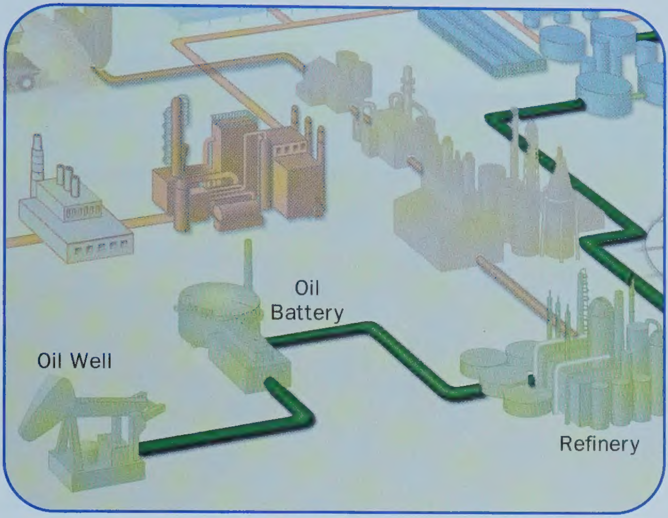


Long-life, Diversified Infrastructure Assets

Inter Pipeline's NGL extraction and pipeline assets hold significant potential for organic and expanded growth. In 2005 several pipelines were reconfigured and expanded to better meet the needs of customers.

Combined, Inter Pipeline's systems transport more than 20 percent of the oil produced in western Canada. On the NGL side, extraction plants process approximately 40 percent of natural gas exported from Alberta.

Conventional Oil Pipelines



Bow River Storage

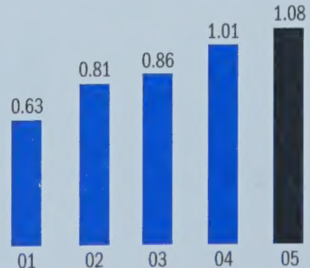
Bow River Pipeline

Pipeline	Description		2005 Throughput	Customers	
Bow River	Length	2,710 km	136,600 b/d	Shippers	32
	Storage capacity	366,000 bbls		Producers	83
	Receipt points	126			
	Delivery points	4			
Central Alberta	Length	584 km	30,000 b/d	Shippers	23
	Storage capacity	113,700 bbls		Producers	52
	Receipt points	34			
	Delivery points	3			
Valley	Length	218 km	5,100 b/d	Shippers	3
	Storage capacity	0 bbls		Producers	3
	Receipt points	3			
	Delivery points	1			
Mid-Sask	Length	425 km	29,700 b/d	Shippers	11
	Storage capacity	397,600 bbls		Producers	29
	Receipt points	23			
	Delivery points	2			

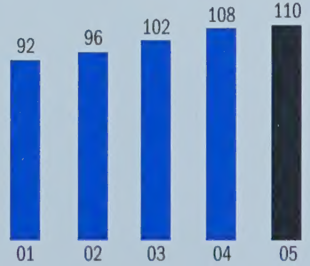
Improved 2005 Results

Revenues and margins improved in 2005 due to a number of optimization initiatives. These include toll management, facility reconfiguration, flow reversal projects and improved operating efficiencies.

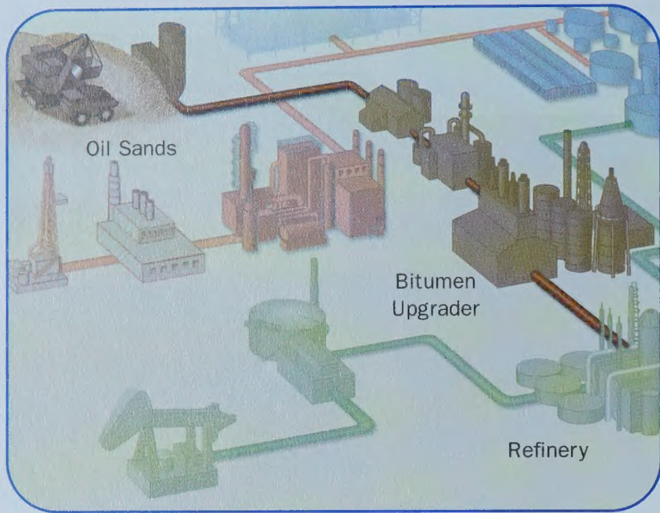
Conventional Gathering Margins
($ per barrel)



Conventional Revenues
($ millions)



Oil Sands Transportation



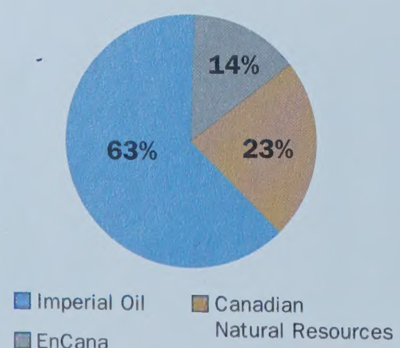
LaCorey Terminal

Pipeline Alley, Strathcona

Cold Lake Pipeline

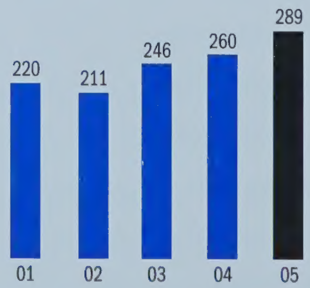
Inter Pipeline has an 85 percent interest in the Cold Lake pipeline, which serves the vast oil sands region. Deposits in this region are estimated to contain 200 billion barrels of oil in place. The 950 kilometre Cold Lake pipeline transports bitumen blend to Hardisty and Edmonton and diluent from Edmonton to the Cold Lake region.

2005 Throughput by Shipper



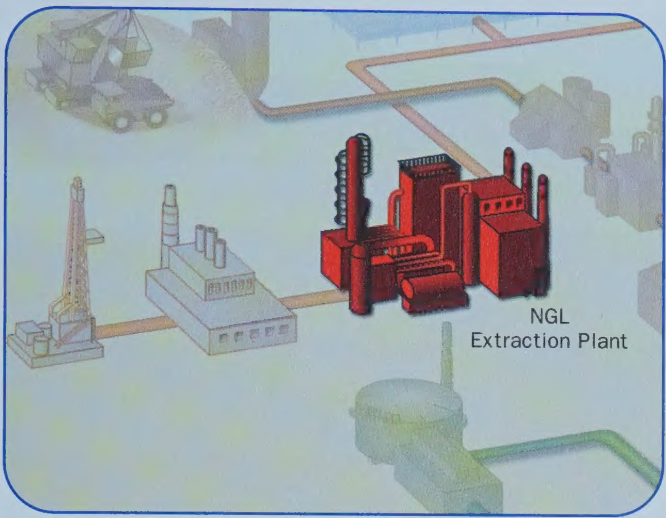
2005 Cold Lake Volumes*

(000 b/d)



*Volumes on 100% basis

NGL Extraction



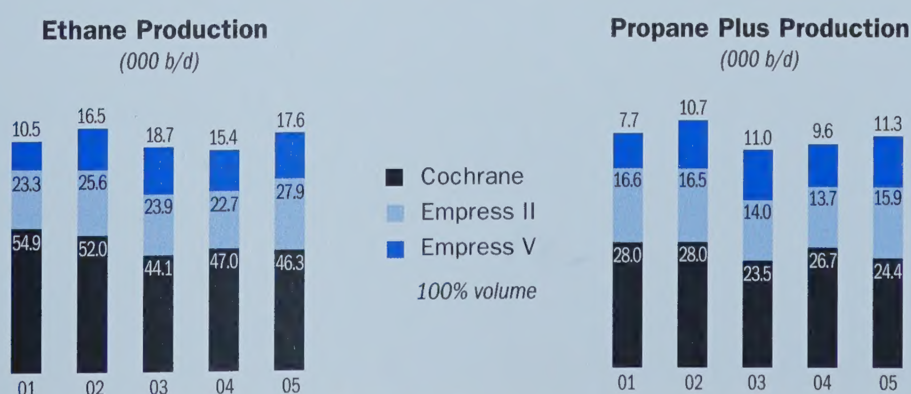
Empress V

Empress II

Plant	Location	Description	2005 Throughput
Cochrane	On the western leg of the TransCanada system near Cochrane, Alberta	Capacity to process 2.5 bcf/d of natural gas and produce 100,000 b/d of NGL	Natural gas 1.5 bcf/d Ethane 46,300 b/d Propane plus 24,400 b/d
Empress II	On the eastern leg of the TransCanada system near Empress, Alberta	Capacity to process 2.6 bcf/d of natural gas and produce 65,000 b/d of NGL	Natural gas 1.5 bcf/d Ethane 27,900 b/d Propane plus 15,900 b/d
Empress V (50% owned by Inter Pipeline)	On the eastern leg of the TransCanada system near Empress, Alberta	Capacity to process 1.1 bcf/d of natural gas and produce 30,000 b/d of NGL	Natural gas 1.0 bcf/d Ethane 17,600 b/d Propane plus 11,300 b/d

Inter Pipeline Extraction Plants

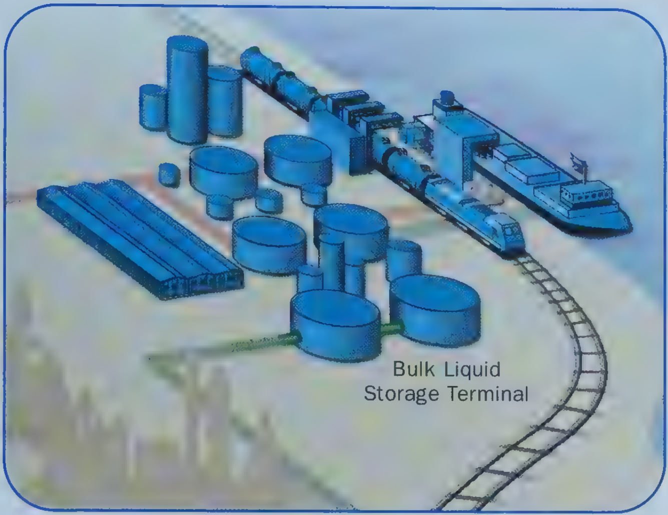
Cochrane and Empress NGL extraction plants are among the largest NGL producers in North America, accounting for over 19 percent of all NGL volumes in Canada and over 33 percent of all ethane production. NGL production is sold to major customers under cost of service, fee based and profit sharing contracts, with an average remaining term of 12 years.



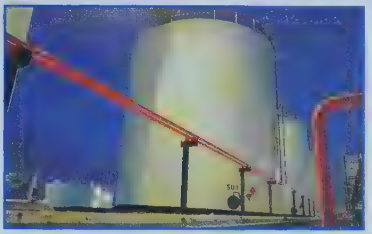
Inter Pipeline in Western Europe

Our bulk liquid storage assets in western Europe handle more than 250 different products for over 300 customers. The business is highly integrated with the operations of major oil refining and petrochemical complexes, and is in close proximity to mainland European markets. The business supports the long-term sustainability and growth of Inter Pipeline's storage business.

Bulk Liquid Storage



Riverside Terminal


Seal Sands Terminal

Building an International Presence

Long-life bulk liquid storage facilities, located at deepwater ports, have the ability to receive and distribute products via ship, rail, truck and pipeline.

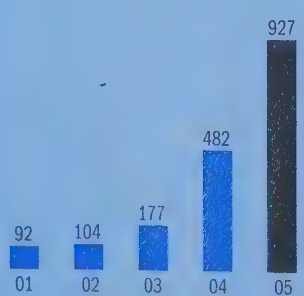
The bulk liquid storage assets, underpinned by fee for service contracts, are an important part of Inter Pipeline's growth strategy.

Terminals	Description	Capacity
Immingham East/West, United Kingdom	UK's largest independent multi-purpose storage facility situated on the south bank of the River Humber.	3.6 million barrels 241 tanks (combined)
Seal Sands, United Kingdom	Situated on the River Tees and provides access to petrochemical and industrial complexes in the north of England.	1.3 million barrels 109 tanks
Riverside, United Kingdom	On the River Tees within the heartland of the UK's chemical industry.	410,000 barrels 22 tanks
Tyne, United Kingdom	Is the only independent bulk liquid storage terminal on the River Tyne, with links to north England and Scotland.	354,300 barrels 62 tanks
Cumbrian, United Kingdom	Located at Workington, adjacent to rail access for distribution in the north of England and southern Scotland.	199,000 barrels 18 tanks
Shannon, Ireland	Located on the Shannon estuary and is one of the few deepwater ports in Ireland.	89,500 barrels 13 tanks
TLG North/South Mannheim, Germany	Two terminals located on the River Rhine and are integrated with regional petrochemical and petroleum industries.	1.9 million barrels 134 tanks (combined)

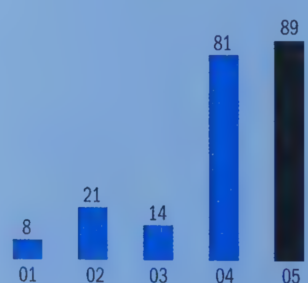
Selected Financial and Operational Highlights

	2005*	2004*	% Change
Volume *(thousands of barrels per day)*			
Pipeline Volume			
Conventional Oil Pipelines	201.4	213.8	(6)%
Oil Sands Transportation	289.1	259.9	11%
Total Pipeline	490.5	473.7	4%
NGL Extraction Volumes			
Ethane	91.8	90.2	2%
Propane Plus	51.6	53.1	(3)%
Total NGL Extraction	143.4	143.3	0%
Capacity Utilization (%)			
Bulk Liquid Storage	94.9%	n/a	n/a
($ millions except where noted)			
Revenue	927.0	482.4	92%
EBITDA	190.4	176.4	8%
Funds from Operations	153.0	150.0	2%
Net Income	89.3	81.1	10%
Cash Distributions	137.7	115.6	19%
Cash Distributions (per unit)	0.75	0.73	3%
Payout Ratio %	90.0%	77.0%	n/a
Total Assets	2,082.4	1,743.0	19%
Partners' Equity	1,033.1	1,064.7	(3)%
Market Capitalization	1,855.2	1,649.6	12%
Total Enterprise Value	2,676.9	2,213.0	21%

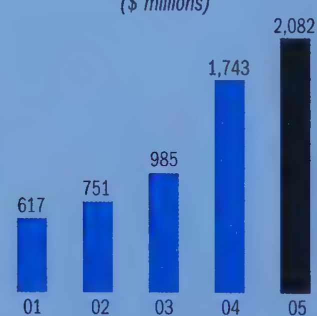
Revenues
($ millions)



Net Income
($ millions)



Total Assets
($ millions)



* *Results from bulk liquid storage operations are for the period of October 4 to December 31, 2005 and the 2004 results from NGL extraction operations are for the period of July 28 to December 31, 2004. Volumes reported on 100% basis.*

President's Letter to Unitholders

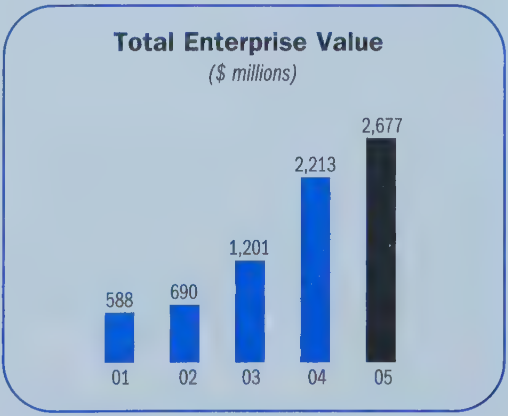
Inter Pipeline has emerged as a major energy infrastructure business with a strong portfolio of competitively positioned assets. We are committed to providing our investors with attractive, stable, long-term returns as we seek to further grow our business within Canada and abroad.

I am pleased to report that in 2005 Inter Pipeline Fund extended its track record of delivering strong financial and operating results. We also took major steps forward in growing our business through the acquisition of complementary energy infrastructure assets in Europe and the ongoing development of our petroleum transportation and NGL extraction assets in western Canada.

Within our operations, we again delivered strong environmental, health and safety results. We also prudently managed our balance sheet and attracted new sources of capital.

A TRACK RECORD OF PROFITABLE GROWTH

Roughly three years ago, Inter Pipeline managed a single business segment comprised of four conventional oil gathering pipelines in Alberta and Saskatchewan. Since then we have significantly expanded and diversified our business to include a major oil sands transportation system, one of North America's largest NGL extraction businesses and two major bulk liquid storage businesses in western Europe. We have successfully completed acquisitions totaling $1.4 billion since 2002.



Inter Pipeline has matured into one of Canada's premier energy infrastructure businesses. Comparing year-end results in 2002 to the 2005 results presented in this report, our revenues have grown by 791% and our funds from operations have grown by 186%. During this same period, Inter Pipeline's enterprise value has grown from approximately $690 million to over $2.6 billion. Our annual cash distributions to unitholders have grown from $50 million to $138 million. Our employee base has grown from 63 people to over 650 people.

2005 HIGHLIGHTS

The rapid growth and evolution of our business has been rewarding, but it has also presented many internal challenges. I am particularly pleased with the manner in which our employees have embraced change and facilitated the smooth integration of our newly acquired businesses. At the same time, we have maintained a strong focus on the operating, financial and commercial principles that have fueled our success.

Inter Pipeline's key accomplishments in 2005 include the following:

- Completed the acquisition of Simon Storage for approximately $250 million. This is the largest independent bulk liquid storage business in the United Kingdom.

- Announced the acquisition of Tanklager Gesellschaft Hoyer mbH for approximately $38 million. This is the second largest independent petrochemical storage provider in Germany.

- Generated a total return of 18% to Inter Pipeline's Class A unitholders during 2005. This includes gains related to Inter Pipeline's unit price appreciation and monthly cash distributions.

- Increased annualized cash distributions to unitholders from $0.75 to $0.78 per unit, payable to unitholders of record commencing December 31, 2005.

- Maintained a payout ratio of 90% of cash available for distribution to unitholders during 2005.

- Received firm shipping commitments to transfer 30,000 barrels per day of crude oil for southbound shipment on the Bow River pipeline system.

- Completed over $15 million in "organic" growth projects within the conventional oil gathering, oil sands transportation and NGL extraction business segments.

- Entered into a new 20-year contract with Greenergy Biofuels Ltd. to store and handle biofuel products at the Simon Storage Immingham facilities.

- Extended Inter Pipeline's strong track record of environmental, health and safety performance, with one of the best records in the energy infrastructure industry.

- Established a new $500 million revolving credit facility to provide greater financial flexibility.

EUROPEAN STORAGE: A NEW PLATFORM FOR GROWTH

In late 2005, Inter Pipeline announced the acquisition of two independent bulk liquid storage businesses in western Europe. These investments, our first outside of Canada, establish Inter Pipeline as a significant player in the European storage sector for petroleum and petrochemical products. Importantly, these acquisitions also create a new line of business with excellent potential for further expansion.

On October 4th, Inter Pipeline successfully completed the acquisition of Simon Storage Limited for $250 million. Simon wholly owns and operates seven deep water storage terminals located on the coasts of the United Kingdom and the Republic of Ireland. With a combined liquid storage capacity of approximately six million barrels, Simon is the largest independent petroleum and petrochemical business in the United Kingdom. Simon's storage facilities are highly integrated with the operations of major regional oil refining and petrochemical complexes.

Within six weeks of completing the Simon acquisition, Inter Pipeline announced the acquisition of Tanklager-Gesellschaft Hoyer mbH, or TLG, for $38 million. TLG owns and operates two multi-purpose bulk liquid storage terminals located on the Rhine River in Mannheim, Germany, one of Europe's largest inland ports. TLG operates 1.9 million barrels of storage, and ranks as the second largest independent petrochemical storage business in Germany. Terminalling facilities at Mannheim are well integrated with local petrochemical complexes, including the BASF Ludwigshafen site, the world's largest petrochemical facility.

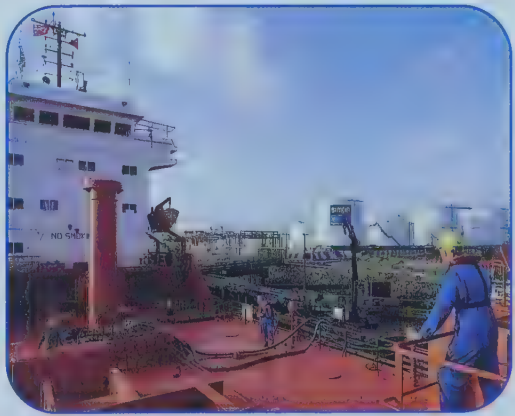
Simon and TLG have common industry fundamentals and share several important business characteristics. Both businesses have been built around long-life energy infrastructure assets in mature markets. Assets are competitively positioned with a well diversified customer base and a strong track record of generating stable and sustainable results. Cash flow is underpinned by a combination of term storage and throughput based contracts, with no commodity price exposure for handled products.

In both instances Inter Pipeline was successful in acquiring high quality, well managed businesses at attractive purchase prices. We see excellent value in these acquisitions, particularly relative to prices that have been paid for energy infrastructure assets in recent divestiture processes in North America. The immediately accretive nature of these transactions supported Inter Pipeline's decision to increase cash distributions payable to our investors. Effective December 31, 2005, Inter Pipeline increased its annualized distribution rate from $0.75 per unit to $0.78 per unit.

ORGANIC GROWTH AND DEVELOPMENT

In recent years Inter Pipeline has been successful in adding new lines of business through acquisitions. These transactions have allowed us to diversify our cash flow streams, enter new parts of the energy value chain and expand our operations geographically. Equally important, each new business segment has in itself become a platform for "organic" growth.

Again in 2005, Inter Pipeline captured several attractive opportunities to develop and expand our existing asset base in Canada.



Simon Storage

Wolf Lake Pump Station

Tilley Storage Tank

Bow River Storage

CONVENTIONAL OIL PIPELINES

Inter Pipeline operates four conventional oil pipeline systems in Alberta and Saskatchewan with a combined length of approximately 4,000 kilometres. Throughput volumes on these systems averaged 201,400 barrels per day in 2005. Since our conventional oil pipelines serve relatively mature oil producing regions, we cannot rely on volume growth to enhance profitability within this business segment. Instead, we must improve operating efficiencies, actively manage our toll structures, and introduce creative new delivery services.

Our largest organic growth project in 2005 involved the reconfiguration of facilities on the Bow River pipeline system to increase oil deliveries to the Montana refining market. New stream transfer and trim blending facilities have been constructed at the oil storage hub at Hardisty, Alberta, and work is underway to install new pump station capacity along the Bow River mainline. In support of these investments, Inter Pipeline has received firm shipping commitments to transport 30,000 barrels per day from the Hardisty storage hub.

We also captured opportunities to attract new supply to the Bow River system through a new oil battery connection in the Princess area and the completion of a new condensate supply connection to Provident Energy's Empress extraction plant. On the Mid-Saskatchewan pipeline system, we invested in new field blending infrastructure to facilitate the shipment of heavy oil. We also began modifications at Inter Pipeline's storage terminal at Kerrobert, Saskatchewan to provide additional storage, product transfer and blending services for Nexen Marketing. This organic growth initiative will improve facility usage and expand our marketing relationship with Nexen.

NGL EXTRACTION

Inter Pipeline is one of North America's largest producers of natural gas liquids, with three extraction plants located near Cochrane and Empress in southern Alberta. These plants straddle the western and eastern export arms of the TransCanada Alberta natural gas transmission system. With total inlet capacity of 6.2 billion cubic feet per day of natural gas, they collectively process approximately 40% of the natural gas exported from the Province of Alberta.

During 2005, we continued to look for ways to improve NGL recovery rates and

improve the efficiency of our operations. To help optimize our cost structure, Inter Pipeline installed a second electric motor at the Cochrane extraction plant. This installation enhances our ability to switch between natural gas and electricity when pricing incentives exist.

OIL SANDS TRANSPORTATION

Inter Pipeline owns an 85% interest in the Cold Lake pipeline system, the exclusive gathering system for oil sands bitumen produced in the Cold Lake region of east central Alberta. During 2005, delivery volumes on the Cold Lake pipeline averaged 289,100 barrels per day, reflecting an increase of 29,200 barrels per day above delivery rates in 2004.

Shippers on the Cold Lake system – Imperial Oil, EnCana and Canadian Natural Resources – have aggressive plans to further increase oil sands bitumen production. In anticipation of higher volumes, Inter Pipeline is developing several organic growth projects to expand system capacity and condensate delivery capabilities.

BULK LIQUID STORAGE

When evaluating the Simon Storage and TLG acquisition opportunities in western Europe, we were particularly impressed with the potential to grow this business segment through organic investments. We are pleased to see that such opportunities are already unfolding.

In November, we announced that Simon had entered into a 20-year fuel storage contract with Greenergy Biofuels Ltd. Under the terms of the contract, Simon will invest approximately $10 million to modify existing storage facilities at its Immingham terminal to accommodate production from a new biodiesel production plant to be constructed by Greenergy. Simon will provide approximately 100,000 barrels of storage capacity to support plant operations and will sublease land to Greenergy for the new plant.

Also in late 2005, Simon Storage entered into a new long-term contract with ConocoPhillips to provide petroleum product handling and storage services at the Immingham terminal. Simon's storage facilities are highly integrated with the ConocoPhillips oil refinery at Immingham.

ENVIRONMENT, HEALTH AND SAFETY

Inter Pipeline extended its track record of strong environment, health and safety performance in 2005. Our environmental, asset integrity and safety programs actively seek to identify hazards and risks before they occur. Inter Pipeline's performance puts us near the top of our energy infrastructure peer group.

In late 2005, the Canadian Association of Petroleum Producers (CAPP) recognized Inter Pipeline as a Platinum member in its Stewardship Program for Environment, Health, Safety and Socio-economic Performance. To attain this highest level award, a company must have well developed EH&S management systems, and perform internal and external audits of its systems.

In March 2005, our pipeline business achieved the noteworthy milestone of ten years without a lost time accident. This truly was a remarkable achievement given the scope and scale of our pipeline operations. As of year-end 2005, Inter Pipeline's extraction operations had achieved seven years without a lost time accident.

Employee commitment to our EH&S programs has allowed us to create a strong, disciplined operating environment

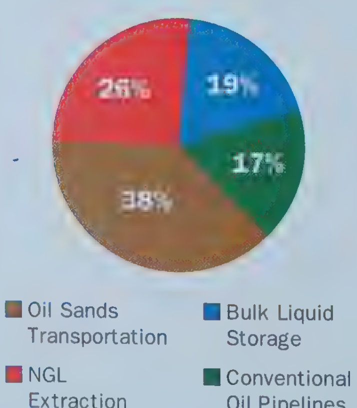
that protects employees, contractors and the communities in which we operate. Safe, compliant and reliable operations also support the long-term viability and sustainability of our business.

STRATEGIC OUTLOOK

In recent years, Inter Pipeline has followed an aggressive, disciplined growth strategy. Through a combination of acquisitions and organic growth investments, we have successfully transformed Inter Pipeline into a major energy infrastructure business. We are now a $2.6 billion enterprise with a well-diversified portfolio of world-scale assets.

Looking forward, we do not intend to deviate from the core strategies that have driven our success in the past. We intend to acquire complementary assets and establish new lines of business involving energy infrastructure. We will then aggressively pursue opportunities to develop and expand those new business segments through organic growth investments. In our experience, such investments typically generate strong, attractive returns.

2006 Estimated Growth Capital Expenditures



In evaluating future acquisition opportunities, we will continue to place an emphasis on businesses with strong industry fundamentals, stable cash flow characteristics, and superior prospects for organic growth. Given the strong level of competition for energy infrastructure assets, Inter Pipeline must be highly disciplined in our economic evaluation of new acquisition opportunities. We will continue to focus on opportunities in North America and western Europe where businesses can be acquired at reasonable prices and we can ensure cash flow accretion to our investors. Wherever possible, we will look to leverage our core capabilities as a major operator of energy pipelines, NGL extraction plants and bulk liquid storage facilities.

The rapid escalation of global energy commodity prices has created a very favourable environment for the development of organic growth projects within Inter Pipeline's existing business segments. Our capital budget for 2006 includes an allocation of approximately $70 million for various organic growth initiatives. This represents our largest capital investment program to date. In the longer term, our oil sands transportation and NGL extraction business segments are particularly well positioned to benefit from expected production increases in oil sands bitumen and natural gas production.

We are anticipating a sharp increase in delivery volumes on the Cold Lake pipeline over the next several years. Our capital budget for 2006 has targeted organic investments totaling $26 million to increase bitumen and diluent shipping capacity on the Cold Lake system. This business segment will benefit from returns on these investments, as well as higher revenues in the future as production volumes surpass minimum shipper

commitment levels. Inter Pipeline is also evaluating opportunities to attract volumes from new oil sands developments to the Cold Lake system.

Within Inter Pipeline's conventional oil pipeline business segment, we will focus on further expanding southbound delivery volumes on the Bow River system. We expect to increase mainline delivery capacity from the Hardisty oil storage hub to the Montana refining market to over 30,000 barrels per day by mid-2006. We also will aggressively pursue opportunities to introduce new stream transfer, blending, storage and product handling services, while further expanding our relationship with Nexen Marketing.

In the near term, the NGL extraction business segment will advance several organic projects to improve the efficiency of operations and achieve higher NGL recovery rates from natural gas volumes processed at our facilities. In the longer term, our NGL extraction plants are well positioned to process new natural gas supplies sourced from Alaska and the Mackenzie Delta.

A key area of focus within the bulk liquid storage business segment is to strengthen our presence in the growing bio-fuel sector in Europe through the development of additional fuel blending and storage facilities. Operations at the new Greenergy bio-diesel plant at Immingham are expected to commence in late 2006. We also intend to advance various organic growth initiatives to attract new, higher margin product movements through storage facilities operated by our Simon Storage and TLG subsidiaries in Europe.

ACKNOWLEDGEMENTS

The past year has been a particularly exciting and rewarding time for us at Inter Pipeline Fund. Our business again generated strong financial and operating results and, for the first time, we executed our growth strategy outside the borders of Canada. Our progress to date gives me confidence that we are on the right track, ready to take advantage of the many opportunities that lie before us.

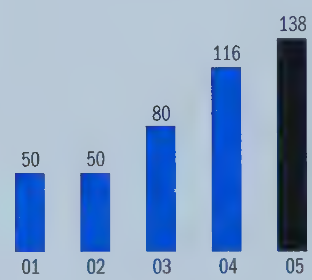
In closing I would like to thank our directors for their support and guidance throughout 2005. I also extend my sincere gratitude to Inter Pipeline's employees in Canada and Europe for everyone's commitment and strong contributions to our success. On behalf of the Board of Directors and the entire Inter Pipeline team, we would like to thank our unitholders for your support and confidence in our business.

David W. Fesyk
President and Chief Executive Officer
March 14, 2006

Management's Discussion and Analysis

Payout Ratio
(percent)

Total Distributions Paid
($ millions)



Corporate Objectives vs. Results

1.

Develop and expand the existing asset base

Inter Pipeline's assets present long-term opportunities for organic growth and optimization. Over $15 million was invested in 2005 and $70 million has been budgeted for organic projects in 2006.

2.

Invest within the hydrocarbon value chain

Inter Pipeline is growing and diversifying its infrastructure assets, as illustrated by the 2005 Simon Storage acquisition which introduces a new business segment; bulk liquid storage.

3.

Ensure new investments are accretive to cash flow

Following the acquisition of Simon Storage, Inter Pipeline increased annual distributions by 4% to $0.78 per unit.

Immingham Terminal

Storage on Bow Valley System

- Operate four conventional oil pipeline systems and one oil sands transportation system in western Canada
- One of the largest NGL extraction businesses in North America
- The largest independent petroleum and petrochemical storage business in the United Kingdom
- One of the largest energy infrastructure businesses in the Canadian Income Fund sector

Key Drivers of Our Businesses

Conventional Oil Pipelines

- ability to actively manage tolls
- adapt our pipelines to serve new markets
- provide cost effective transportation services to customers

Oil Sands Transportation

- large scale, cost effective, expandable pipeline assets
- integrated with customers focused on growth
- connected to significant Canadian market hubs

NGL Extraction

- favourable commodity prices encouraging gas production
- high demand for ethane by Alberta petrochemical industry
- sustained high price and demand for propane-plus

Bulk Liquid Storage

- terminals with access to major European export markets
- highly integrated with regional petroleum and petrochemical industries
- flexibility to receive and distribute product by ship, rail, road and pipeline

4.

Safe and reliable operations of all assets

Inter Pipeline's focus on environment, health, safety and asset integrity programs delivered results. We have achieved an exemplary safety record and a high level of reliability on all operated assets.

5.

Tightly manage all operating costs

2005 expenses on Inter Pipeline's operated assets were under budget despite escalation in many key cost categories.

6.

Maintain investment grade credit rating

In the third quarter of 2005, Standard & Poor's confirmed its BBB long-term corporate credit rating and upgraded the outlook to stable, reflecting Inter Pipeline's strong financial position.

Management's Discussion and Analysis
FOR THE YEAR ENDED DECEMBER 31, 2005

The following Management's Discussion and Analysis ("MD&A") provides a detailed explanation of Inter Pipeline Fund's ("Inter Pipeline") operating results for the year ended December 31, 2005 as compared to the year ended December 31, 2004. The MD&A should be read in conjunction with the unaudited interim consolidated financial statements of Inter Pipeline for the quarterly periods ended March 31, June 30, and September 30, 2005 and 2004, the Annual Information Form ("AIF") and other information filed by Inter Pipeline at www.sedar.com.

2005 HIGHLIGHT SUMMARY

- Funds from operations of $153.0 million, up $3.0 million over the prior year.
- Full year payout ratio of 90.0% as compared to 77.0% in 2004.
- Net income of $89.3 million, up $8.2 million from the prior year.
- Distributed $0.7525 per unit in 2005 as compared to $0.7300 per unit in 2004.
- Increased distributions of $0.03 per unit, on an annualized basis, to $0.78 per unit, effective for distributions payable for December 30, 2005.
- Completed the acquisition of Simon Storage Holding Limited ("Simon Storage") on October 4, 2005, for approximately $250.0 million (£120.0 million) before closing adjustments.
- Announced on December 14, 2005, the acquisition of Tanklager-Gesellschaft Hoyer mbH ("TLG"), an independent bulk liquid storage business located in Mannheim, Germany for approximately $38.0 million (€27.0 million) before closing adjustments.
- Announced 30,000 b/d of firm shipping commitments on the Bow River pipeline system.
- Increased unsecured revolving credit facility from $400 million to $500 million and obtained more favourable terms.
- Inter Pipeline added to the S&P/TSX Composite Index.
- Standard & Poor's continues to rate Inter Pipeline with a BBB corporate credit rating and a stable outlook.

90%
PAYOUT RATIO

SUBSEQUENT EVENTS

- Completed the acquisition of TLG on January 1, 2006.
- Completed a $150.0 million bought deal equity financing on January 31, 2006. Net proceeds of $142.5 million were applied to reduce debt.
- Announced acquisition of 85% interest in the Cactus Lake pipeline system in February 2006 for approximately $20.0 million, subject to certain right of first refusal conditions.
- Effective January 1, 2006, implemented new long-term incentive plan.

PERFORMANCE OVERVIEW
YEAR ENDED DECEMBER 31, 2005

For the year ended December 31, 2005, Inter Pipeline's funds from operations increased $3.0 million to $153.0 million, up from $150.0 million in the year ended December 31, 2004. For comparative purposes, Inter Pipeline began recognizing earnings from its NGL extraction business on July 28, 2004. As such, Inter Pipeline recognized only 157 days of earnings from the NGL extraction business in 2004. A new line of business that contributed to Inter Pipeline's 2005 funds from operations was the Simon Storage bulk liquid storage business, which was acquired on October 4, 2005 (89 days).

$153 MILLION
Funds from Operations

The NGL extraction, conventional oil pipeline, oil sands transportation, and bulk liquid storage businesses each contributed $75.8 million, $79.1 million, $45.0 million and $9.2 million of funds from operations, respectively (2004 – $53.6 million, $78.6 million, $57.8 million and nil, respectively). These cash contributions were offset by corporate cash costs of $56.1 million (2004 – $40.0 million).

Inter Pipeline paid monthly cash distributions of $0.0625 per unit to unitholders in 2005, except December 2005 in which $0.0650 per unit was paid, for a total of $0.7525 per unit paid during the year. This compares with cash distributions paid of $0.0600 per unit per month for January to August of 2004 and $0.0625 per unit for September to December 2004 for a total of $0.7300 per unit for 2004. Annualized 2006 cash distributions are estimated to be $0.78 per unit.

Total cash distributed in 2005 of $137.7 million was $22.1 million higher than the $115.6 million distributed in the year ended December 31, 2004. This increase in total cash distributed is attributable to: 1) the increase in the amount distributed per unit as mentioned above; 2) the July 28, 2004 equity issuance of 38.0 million Class A units; and 3) the issuance of 4.5 million new units since January 1, 2005 resulting from the conversion of 10% Convertible Extendible Unsecured Subordinated Debentures (the "Debentures"), the Distribution Reinvestment and Optional Unit Purchase Plan, and the exercise of Unit Incentive Options. This represents a 90.0% payout ratio of funds from operations for 2005, as compared to a payout ratio of 77.0% for 2004. Strong NGL commodity prices and high inlet volumes at the Cochrane extraction plant in the last quarter of 2004 contributed significantly to the low payout ratio in 2004.

$0.78

PER UNIT

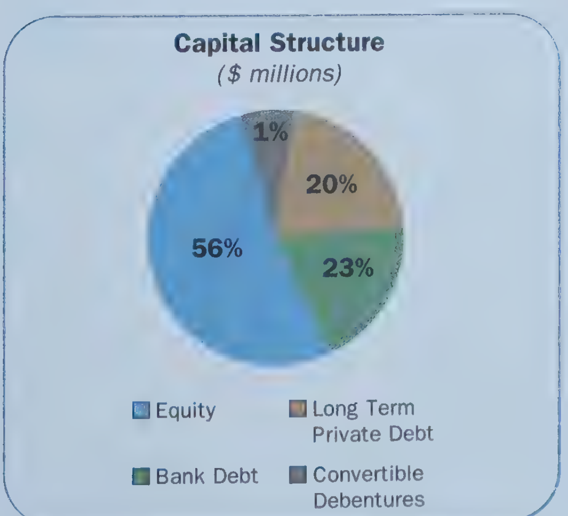
2006 Estimated Annualized Cash Distribution

Inter Pipeline increased its outstanding debt level, including Debentures, from December 31, 2004 by $258.4 million, primarily to fund the acquisitions of Simon Storage and TLG. This results in a total debt to total capitalization ratio of 44.3% at year end. Of the total $821.7 million of debt outstanding as at December 31, 2005 $365.0 million, or 44.4% is exposed to interest rate fluctuations. These percentages were subsequently reduced to 36.7% and 32.8%, respectively, after applying the net proceeds of $142.5 million from the January 2006 issuance of 15.0 million Class A units.

Inter Pipeline changed its accounting policy for accounting for its Unit Incentive Option Plan ("UIOP"), which resulted in a restatement of prior period comparative figures dating back to 2003. The effect of the change in policy was to increase the previously reported cumulative net income for 2003 and 2004 by approximately $10.4 million. There was an immaterial impact on funds from operations in this same time period. Please see the sections "CRITICAL ACCOUNTING ESTIMATES – Unit-Based Compensation", "NEW ACCOUNTING POLICIES – Unit-Based Compensation" and "CORPORATE – Management and Acquisition Fees" below.

THREE MONTHS ENDED DECEMBER 31

For the three months ended December 31, 2005, Inter Pipeline's funds from operations decreased $17.7 million to $38.1 million in the three months ended December 31, 2004. The NGL extraction, conventional oil pipeline, oil sands transportation and bulk liquid storage businesses each contributed $16.8 million, $20.1 million, $11.2 million and $9.2 million of funds from operations, respectively (three months ended December 31, 2004 – $34.3 million, $19.5 million, $14.8 million and nil, respectively). These cash flow contributions were offset by corporate cash costs of $19.2 million (three months ended December 31, 2004 – $12.8 million). The net income for this three month period ending December 31, 2005 was $20.9 million as compared to $33.5 million in the comparable period of 2004.



Total cash distributed in the three months ended December 31, 2005 of $35.0 million was $1.3 million higher than the $33.7 million distributed in the three month period ended December 31, 2004. This represents a 91.8% payout ratio of funds from operations for the three month period ended December 31, 2005, as compared to 60.4% for the same period of 2004. Strong NGL commodity prices and high inlet volumes at the Cochrane extraction plant in the last quarter of 2004 contributed significantly to the low payout ratio in that period.

OUTLOOK

Inter Pipeline will continue to pursue its strategy to provide stable and predictable distributions to unitholders, while optimizing and growing its business. Along these lines management has indicated an intention to spend approximately $70 million on organic growth projects in 2006. These organic projects generally provide the highest economic returns on investment available to Inter Pipeline, and will allow Inter Pipeline to meet increased customer demand and optimize the operating capabilities of its assets.

For example, our newly configured Bow River pipeline system is positioned to meet the expected increased demand for Canadian crude oil from the U.S. Rocky Mountain region refiners. The Cold Lake pipeline is strategically located to benefit from additional oil sands development. Inter Pipeline's NGL extraction plants are well positioned to process the anticipated new supplies of natural gas expected to arise in the next decade from the development of the vast natural gas reserves in Alaska and the Mackenzie Delta.

Inter Pipeline's recent acquisitions of bulk liquid storage facilities in western Europe will contribute to the growth and stability of Inter Pipeline's cash flow. These operations have a highly experienced senior management team with long standing customer relationships. The Simon Storage and TLG acquisitions now provide the opportunity to further grow the bulk liquid storage business in Europe. As a result of these acquisitions, cash distributions to unitholders have recently increased by $0.03 per unit to $0.78 per unit on an annualized basis, demonstrating management's ability to deliver accretive growth investments.

$70 MILLION

2006 Organic Growth Budget

On January 31, 2006 Inter Pipeline issued 15 million Class A units at $10.00 per unit for gross proceeds of $150 million. This equity issue, combined with a recent increase in Inter Pipeline's credit facilities from $400 million to $500 million have strengthened the balance sheet as we enter 2006 and continue our growth initiatives.

In late 2005, the Government of Canada announced a review of flow-through entity structures ("FTEs") and suspended the issuance of advance tax rulings connected with FTEs, such as income trusts and limited partnerships, which created some uncertainty in capital markets. In December 2005, the Government of Canada announced that their review was complete and that there would be no amendments to the way FTEs are taxed. Inter Pipeline considered this a positive result for its unitholders.

BBB

Investment Grade Credit Rating

In 2005, Standard & Poor's ("S&P") announced that it will introduce FTEs, including trusts and limited partnerships, into the S&P/TSX Composite Index. S&P has added Inter Pipeline to the revised Index. Inter Pipeline is pleased to have been selected for inclusion in the Index and views this as a positive event for Inter Pipeline and its unitholders.

S&P continues to rate Inter Pipeline as a BBB corporate credit rating with a stable outlook.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(millions, except per unit and % amounts)	For the Three Months Ended December 31 **2005**	2004	As at and for the Years Ended December 31 **2005**	2004	2003
Revenues					
NGL extraction [1]	**$ 233.8**	$ 185.5	**$ 724.0**	$ 300.3	n/a
Conventional oil pipeline	**$ 28.2**	$ 27.9	**$ 109.9**	$ 108.5	$ 101.7
Oil sands transportation	**$ 17.2**	$ 18.6	**$ 62.7**	$ 73.3	$ 75.1
Bulk liquid storage [2]	**$ 30.4**	n/a	**$ 30.4**	n/a	n/a
Net income [1][2][6]	**$ 20.9**	$ 33.5	**$ 89.3**	$ 81.1	$ 14.8
Per unit – basic [6]	**$ 0.11**	$ 0.19	**$ 0.49**	$ 0.52	$ 0.14
Per unit – diluted [6]	**$ 0.11**	$ 0.18	**$ 0.48**	$ 0.52	$ 0.14
Funds from operations [1][2][5][6]	**$ 38.1**	$ 55.8	**$ 153.0**	$ 150.0	$ 88.7
Per unit [5]	**$ 0.21**	$ 0.31	**$ 0.84**	$ 0.97	$ 0.86
Cash distributions [4][5]	**$ 35.0**	$ 33.7	**$ 137.7**	$ 115.6	$ 79.6
Per unit [4][5]	**$ 0.1900**	$ 0.1875	**$ 0.7525**	$ 0.7300	$ 0.7200
Payout ratio [5][6]	**91.8%**	60.4%	**90.0%**	77.0%	89.7%
Total assets [1][2][3]			**$ 2,082.4**	$ 1,743.0	$ 985.4
Long-term debt [1][2][3]			**$ 805.8**	$ 530.8	$ 102.0
Debentures [7]			**$ 15.9**	$ 32.5	$ 100.1
Total partners' equity [6]			**$ 1,033.1**	$ 1,064.7	$ 758.0
Partnership units outstanding, end of period [7]			**184.6**	180.1	128.8
Total enterprise value [1][2][3][5]			**$ 2,676.9**	$ 2,213.0	$ 1,201.4

(1) The NGL extraction business was acquired on July 28, 2004. Therefore, the comparable annual 2004 figures include only 157 days of NGL extraction operations and there was a material increase in assets and debt outstanding.
(2) The Simon Storage bulk liquid storage business was acquired on October 4, 2005. Therefore, there are no comparable figures. The acquisition was financed by debt and thus the increase in assets and debt outstanding.
(3) TLG was acquired on January 1, 2006; however approximately $38 million was placed in trust at December 31, 2005 and therefore, there was an increase in both assets and debt outstanding at year end.
(4) Cash distributions are calculated based on the number of units outstanding at each record date.
(5) Please refer to the "Non-GAAP Financial Measures" section of this MD&A.
(6) Restated comparative periods due to change in accounting policy regarding UIOP.
(7) There was a material amount of conversions of Debentures into Class A units during 2004.

RESULTS OF OPERATIONS

NGL EXTRACTION BUSINESS SEGMENT

The annual 2004 comparative figures for the extraction business are calculated based on a 157 day period from the date of acquisition of the NGL extraction business on July 28, 2004 to December 31, 2004.

Volumes and Extraction Revenues

	Years Ended December 31 **2005** Bcf/d Throughput	(000 b/d) Ethane	Propane-plus	Total	2004 Bcf/d Throughput	(000 b/d) Ethane	Propane-plus	Total
Cochrane	**1.5**	**46.3**	**24.4**	**70.7**	1.9	50.0	28.7	78.7
Empress V (100% basis)	**1.0**	**17.6**	**11.3**	**28.9**	0.9	15.6	10.1	25.7
Empress II	**1.5**	**27.9**	**15.9**	**43.8**	1.3	24.6	14.3	38.9
Total	**4.0**	**91.8**	**51.6**	**143.4**	4.1	90.2	53.1	143.3

The three NGL extraction plants processed a combined 4.0 Bcf/d for the year ended December 31, 2005. This compares with approximately 4.1 Bcf/d of gas for the period ending December 31, 2004. As a result, the NGL extraction facilities produced an average of 143.4 b/d in 2005, consistent with 143.3 b/d during the period ended December 31, 2004.

The increase in the gas processed on a daily basis at the Empress II and V facilities, compared to the prior year, is primarily due to greater demand for Alberta natural gas in eastern North America. This increased demand for Alberta natural gas in eastern markets was a result of a warmer than normal summer and a slightly cooler than normal late fall in those regions. Conversely, milder than normal weather in California and the U.S. Pacific Northwest resulted in decreased demand for Alberta gas in western markets and lower volumes at the Cochrane facility.

The NGL extraction business generated $724.0 million in revenues in 2005 as compared to $300.3 million for the period ending December 31, 2004. Inter Pipeline hedged a portion of its cash flow that was subject to commodity prices (the "frac-spread") in 2005. That portion is only related to the propane-plus volumes at the Cochrane plant. See the "FINANCIAL INSTRUMENTS AND OFF BALANCE SHEET FINANCING" section below for further explanation.

Market frac-spread, or gross margin, is defined as the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the cost of AECO natural gas purchased for shrinkage make-up. During the year ended December 31, 2005, the actual market frac-spread was $0.381 CAD/US gallon (period ended December 31, 2004 – $0.446 CAD/US gallon). Based on the average monthly Bank of Canada USD/CAD rate, the actual market frac-spread was $0.314 US/US gallon (period ended December 31, 2004 – $0.355 US/US gallon).

The frac-spread realized by Inter Pipeline during the year, including the production hedged and unhedged, was $0.332 CAD/US gallon (period ended December 31, 2004 – $0.459 CAD/US gallon) or $0.274 US/US gallon (period ended December 31, 2004 – $0.367 US/US gallon), based on the average monthly Bank of Canada CAD/USD rate. This realized price is higher than the 15-year historical simple average frac-spread to December 31, 2005 of $0.232 US/US gallon.

As at December 31, 2005, Inter Pipeline had no frac-spread hedges in place. In January 2006, Inter Pipeline entered into certain frac-spread hedges. See the "FINANCIAL INSTRUMENTS AND OFF BALANCE SHEET FINANCING" section below for further explanation.

Shrinkage and Operating Expenses

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of the liquids extracted from the gas processed at the extraction plants. The shrinkage gas cost was $504.8 million for 2005. This compares with the shrinkage gas cost for the period ending December 31, 2004 of $191.2 million. Notwithstanding the fact that the 2005 year represents a 365 day operating period versus a 157 day period in 2004, the increase in cost is directly associated with the increased price of Alberta natural gas, which is based on the AECO monthly index price for natural gas. The price averaged $8.05 per gigajoule in 2005 as compared with an average price of $6.50 per gigajoule in the period ended December 31, 2004.

Operating and maintenance costs were $143.4 million in 2005 as compared to $55.5 million for the period ending December 31, 2004. Fuel and power costs, included in operating costs, to produce NGL at the three extraction facilities were $111.3 million in 2005 compared to $40.9 million for the period ended December 31, 2004.

Inter Pipeline continued to use its fuel switching capability to optimize fuel and power costs at the Cochrane extraction plant. The recompressor on one of the processing trains can be driven with either a gas turbine or electric motor, allowing Inter Pipeline to select the less expensive operating mode. During 2005, when natural gas prices were high relative to Alberta power prices, the electric motor was primarily utilized. In late 2005, Inter Pipeline completed refurbishing a second electric motor, which will double the fuel switching capability and further optimize fuel and power costs. Verification and testing of the power service capacity to the Cochrane facility was successfully completed in January 2006. Final regulatory approval from the Alberta Electric System Operator, to enable operation of both electric motors simultaneously, is expected in February 2006.

CONVENTIONAL OIL PIPELINE BUSINESS SEGMENT

Volumes and Revenues

(000 b/d)	Years Ended December 31 **2005**	2004
Bow River	**136.6**	144.4
Central/Valley/Mid Saskatchewan	**64.8**	69.4
	201.4	213.8

The volume decrease of 12,400 b/d in the year, as compared to 2004, was due primarily to natural declines, slower than anticipated recovery from June 2005 storms and the persistent wet weather throughout the spring and summer of 2005. In addition, the high price of diluent during the year reduced the amount of crude oil blending on the system, which contributed to lower throughput. Offsetting this decline was a 41% or 3,000 b/d increase over 2004 in the Bow River Hardisty south volumes, which supplies the U.S. Rockies region refineries.

Total conventional revenues of $109.9 million in 2005 were $1.4 million higher than the $108.5 million earned in the year ended December 31, 2004. The financial impact of the volume decrease was offset by mainline toll increases of 5% effective on each of January 1, 2005 and July 1, 2005, respectively, increased southbound deliveries from Hardisty on the Bow River pipeline system, and revenues earned from the Oil Storage and Marketing Agreement with Nexen Inc. The average revenue per barrel from the conventional systems in 2005 was $1.49 versus $1.39 per barrel in 2004.

Operating Expenses

The operating expenses for the conventional system were $32.3 million, which is $2.4 million higher than the $29.9 million incurred in 2004. This increase is primarily due to increased staffing costs ($0.8 million) and an increase in the non-cash environmental remediation accrual ($1.6 million).

Conventional system power costs were comparable from 2005 to 2004. The average Alberta market power price for 2005 was $70.36 per megawatt hour ("MW.h") compared to $54.59 per MW.h in 2004. The impact of higher Alberta market power prices on power costs was offset by lower consumption and Inter Pipeline's power hedging program, which fixed 5.0 megawatts of power at an average price of $46.95 per MW.h for both years.

The Cactus Lake Pipeline System Acquisition

On February 7, 2006, Inter Pipeline announced that it has entered into an agreement to purchase an 85% interest in the Cactus Lake pipeline system from Nexen Marketing, a division of Nexen Inc. The cash consideration for this transaction is $20 million. Funding for the acquisition will be provided from existing bank credit facilities.

The acquisition is subject to certain closing conditions including the waiver or expiry of certain rights of first refusal. Assuming such rights of first refusal are waived or not exercised, it is anticipated that closing will take place on or about March 1, 2006.

Description of the Assets

The Cactus Lake pipeline system is a crude oil pipeline system located in southwestern Saskatchewan, comprised of over 170 kilometres of crude oil and condensate pipelines and 26,000 barrels of storage. The system, which has a capacity of 50,000 b/d, currently transports approximately 17,000 b/d from regional heavy oil production sites to the market hub at Kerrobert, Saskatchewan.

Description of the Contract with Nexen

Cash flow from the anticipated pipeline acquisition is supported by a 20-year transportation agreement for the shipment of Nexen's oil production volumes. Nexen currently ships approximately 70% of throughput volumes on the Cactus Lake pipeline system.

Shipping agreements with Nexen have been structured under a cost-of-service contract, whereby cash flow is not directly dependent on throughput volumes. The contract also includes recovery of operating costs.

Independent of the Cactus Lake pipeline acquisition, Inter Pipeline entered into several commercial agreements with Nexen Marketing and others in which Inter Pipeline will invest approximately $3.5 million to construct new metering and interconnection facilities at its Kerrobert terminal in southwest Saskatchewan.

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

Volumes and Revenues

(000 b/d)	Years Ended December 31 **2005**	2004
Cold Lake Pipeline (100% basis)	**289.1**	259.9

Volumes on the Cold Lake pipeline system increased by approximately 29,200 b/d from 259,900 b/d in 2004 to 289,100 b/d in 2005. This increase is the result of the continued development of the oil sands by the founding shippers on the Cold Lake pipeline system. These facilities were not significantly impacted by the poor weather that impacted the volumes on the conventional oil pipeline systems noted above.

Revenues from Inter Pipeline's 85% interest in the Cold Lake Pipeline Limited Partnership ("Cold Lake L.P.") oil sands transportation business were $62.7 million during 2005, down $10.6 million from $73.3 million earned in 2004. Despite the increase of 29,200 b/d in the Cold Lake pipeline system volumes, on a 100% basis, the decrease in revenues is primarily a result of the reduction in capital fees (per barrel) that became effective January 1, 2005. This resulted in an approximately $15.1 million reduction in revenue when compared to 2004. This capital fee reduction was partially offset by a $1.4 million increase in DilSynBit capital fee revenue, which was recognized for an entire year in 2005 versus only three months in 2004. As well, increased volumes, despite the lower capital fees, contributed $1.6 million in revenue, and operating revenue increased by $1.8 million in 2005 as a result of increased recoverable operating expenses.

The Cold Lake Transportation Services Agreement is supported with an annual minimum ship or pay commitment of $38.0 million ($44.7 million – 100% basis) in 2005 and, thereafter, reduces to approximately $30.8 million ($36.3 million – 100% basis) annually through to the end of December, 2011.

Operating Expenses

Cold Lake operating expenses for 2005 were $17.7 million compared to $15.5 million for 2004. The increase was primarily due to a $1.5 million increase in fuel and power costs, attributable to power price increases and higher volumes. Unlike the conventional system, the Cold Lake pipeline system fuel and power costs are not hedged as these costs and the majority of operating expenses are recovered from the shippers. The fuel, power and operating cost recoveries are recorded as revenue.

BULK LIQUID STORAGE BUSINESS SEGMENT

The Simon Storage Acquisition

On October 4, 2005, Inter Pipeline announced that it had closed the acquisition of Simon Storage, the largest independent petroleum and petrochemical storage business in the United Kingdom. The transaction involved the purchase of all outstanding share capital in Simon Storage for cash consideration of approximately $258.6 million (£120 million plus closing adjustments and acquisition costs of £4.6 million). The purchase price allocation including closing adjustments and acquisition costs is as follows:

(millions)	
Cash	$ 12.8
Non-cash working capital	(7.7)
Intangible assets – customer contracts	21.1
Goodwill	55.8
Property, plant and equipment	237.3
Asset retirement obligation	(0.9)
Pension liability	(2.3)
Future tax liability	(57.5)
Total assets acquired	$ 258.6

Funding for the acquisition was provided from Inter Pipeline's unsecured revolving bank credit facility, which was increased from $400 million to $500 million on September 30, 2005.

Description of the Assets

At December 31, 2005, Simon Storage wholly owned and operated seven deep water storage terminals located on the coasts of the United Kingdom and the Republic of Ireland with a combined liquid storage capacity of approximately six million barrels. The business is integrated with the operations of major regional oil refining and petrochemical complexes. Simon Storage's liquid storage terminals have the flexibility to receive and distribute products via ship, rail, truck and pipeline.

Simon Storage also offers a range of complementary services through its bulk liquid trucking, engineering, training and facilities management divisions. Simon Storage currently operates ten fuel distribution terminals in England, Wales and the Republic of Ireland on behalf of ConocoPhillips, Total, ChevronTexaco and others.

The majority of the bulk liquid storage business property, plant and equipment are depreciated over 30 years on a straight line basis reflecting the long useful life of these assets.

Description of Contract and Customer Base

Simon Storage has a customer base which during 2005 provided storage and handling services for over 250 products to over 300 customers. The business primarily serves the petroleum and petrochemical markets, with contract periods that vary from less than one year to more than 20 years. Historically, Simon Storage has benefited from stable cash flows derived from long standing customer relationships and has an increasing presence as a storage provider to the emerging renewable fuels market.

On November 4, 2005, Inter Pipeline announced that Simon Storage had entered into a 20 year fuel storage contract with Greenergy Biofuels Ltd. ("Greenergy"). Under the terms of the contract, Simon Storage will invest approximately $9.8 million (£4.9 million at the December 31, 2005 rate) to modify existing storage facilities at the Immingham West terminal to accommodate production from a new 750,000 barrel per year biodiesel production plant to be constructed by Greenergy. Simon Storage will provide approximately 100,000 barrels of storage capacity to support plant operations and will sublease land to Greenergy for the new plant. Operations are expected to commence in late 2006.

Since October 4, 2005, Simon Storage experienced strong demand for its facilities; average tank utilization was approximately 95%.

Operating Results

Simon Storage earned revenues of $30.4 million for the three months following the acquisition on October 4, 2005. Rental and handling income benefited from increased occupancy across the UK terminal network. The Immingham storage terminals continued to benefit from close proximity and pipeline links to the ConocoPhillips and Total refineries. Revenue included a one time receipt of $0.6 million related to the early termination of a certain long term contract.

Operating expenses for the three months following the acquisition on October 4, 2005 were $18.3 million. These costs are primarily composed of variable costs, including energy and maintenance costs, as well as staffing costs.

The Tanklager-Gesellschaft Hoyer mbH ("TLG") Acquisition

In December 2005 Inter Pipeline, through its wholly owned subsidiary, Simon Storage, entered into an agreement to acquire TLG, an independent bulk liquid storage business located in Mannheim, Germany. The transaction involved the purchase of all outstanding share capital of TLG from Hoyer GmbH International Fachspedition. The cash consideration for this transaction was approximately $38 million (€27 million), plus closing adjustments. The acquisition closed on January 1, 2006.

Funding for the acquisition was provided from Inter Pipeline's existing credit facilities.

TLG owns and operates two multi-purpose bulk liquid storage terminals located on the Rhine River in Mannheim, Germany, one of Europe's largest inland ports. With 134 storage tanks and a combined storage capacity of 1.9 million barrels, TLG ranks among the top ten independent storage providers and is the second largest independent petrochemical storage provider, by capacity, in Germany.

The terminals are integrated with local petrochemical complexes, including the BASF Ludwigshafen site, the world's largest petrochemical facility. TLG's location on the Rhine River, one of Western Europe's principal inland waterways, links the terminals to other major industrial centres in Germany, France and Switzerland. The terminals also provide access to the major deep water coastal ports of Rotterdam, Amsterdam and Antwerp.

CORPORATE

General and Administrative

Inter Pipeline's general and administrative expenses totaled $17.5 million during 2005, which is $7.1 million higher than the $10.4 million in 2004. This increase in costs is primarily attributable to the increased staff levels and other expenses resulting from the acquisition of the NGL extraction business in July 2004 and the bulk liquid storage business in October 2005. The pursuit of other growth projects, ensuring regulatory compliance and the cancelled special unitholder meeting also contributed to the increase.

Non-Cash Compensation

Inter Pipeline has determined, after consultation with its auditors and the Alberta Securities Commission that it is preferable to change its method of accounting for unit-based compensation to the fair value method. Inter Pipeline previously valued the unit incentive options ("Options") issued under its UIOP using the intrinsic value method. Under this method the resulting net change in the number of vested Class A units outstanding combined with the net change in the value of the Class A units, from reporting period to reporting period, is recorded in the income statement in each reporting period. Under the fair value method, the value of the Options is determined on the date of grant using a binomial option pricing model, and that value is amortized as an expense over the vesting period of the Options. This accounting change has been applied retroactively and prior periods restated.

After applying this retroactive change, the non-cash compensation expense for 2005 of $0.7 million is $0.6 million less than the restated 2004 expense of $1.3 million. Please see the "NEW ACCOUNTING POLICIES – Unit-Based Compensation" section below.

Long Term Incentive Plan ("LTIP")

Effective January 1, 2006, Inter Pipeline implemented a new long term incentive plan ("LTIP") for its employees, officers and directors of the General Partner. The LTIP is governed by a Unit Appreciation Rights Plan ("UARP") document that defines how awards made under the UARP will be determined and administered.

A Unit Appreciation Right ("UAR"), as granted under the UARP, is valued based on Inter Pipeline's unit price plus credit for cash distributions paid to unitholders during the period the UAR's are held. The UAR will vest as to one-third on each of the successive anniversary dates from the date of grant. Upon exercise of a UAR, the amount owing will be paid out in cash net of applicable withholding taxes.

The total number of grants issued effective January 1, 2006 were 432,000 with a fair value on that date of $4.3 million.

Depreciation and Amortization

Inter Pipeline's depreciation and amortization of its operating and intangible assets totaled $61.4 million in 2005, which is $2.7 million lower than the $64.1 million charged in 2004. This decrease is attributable to a reduction in depreciation on the conventional oil pipeline assets due to a change in depreciation methods, offset by the depreciation and amortization associated with the operating and intangible assets of the NGL extraction business being included for an entire year as well as the bulk liquid storage business assets since October 4, 2005. Beginning January 1, 2005, the conventional oil pipeline assets are being depreciated on a straight line basis over the next 30 years. Please see "CRITICAL ACCOUNTING ESTIMATES – Property, Plant and Equipment" section below.

Financing Charges

(millions)	Years Ended December 31 2005	2004
Credit facility interest expense	**$ 9.6**	$ 9.7
Interest on loan payable to General Partner	**23.1**	4.1
Debentures interest expense	**2.2**	4.9
Cash related financing charges	**34.9**	18.7
Amortization of deferred financing costs	**0.8**	3.0
Accretion of discount on Debentures	**–**	0.5
Total financing charges	**$ 35.7**	$ 22.2

Inter Pipeline incurred $9.6 million of total credit facility interest expense during the year, compared to $9.7 million in 2004. Short-term interest rates for the year ranged from a weighted average bankers acceptance rate of 3.64% to a weighted average prime rate of 4.42% (2004 – 3.11% for bankers acceptances and 3.97% for prime rate). The weighted average principal outstanding on the credit facilities was $197.2 million for the year ended December 31, 2005 (2004 – $232.3 million).

Interest expense of $23.1 million was incurred in the year on the $379.8 million loan payable to the General Partner compared to the $4.1 million from its issuance on October 28, 2004 to December 31, 2004. The loan payable to the General Partner was part of the financing plan to acquire the NGL extraction business in July 2004.

Debenture holders converted $15.9 million of Debentures into 2.6 million Class A units since December 31, 2004. Inter Pipeline incurred $2.2 million of interest expense in respect of its Debentures during 2005, as compared to $4.9 million in 2004. Issue costs for the Debentures are being amortized over their five year term accelerated for conversions. The difference between the amount amortized over the five year term and the amount adjusted for conversions is being included in equity as these costs relate to the equity component of the Debentures.

Management and Acquisition Fees

The General Partner was paid a management fee equivalent to 2% of "Operating Cash," as defined in the Partnership Agreement. The fees of $3.9 million for 2005 are $0.3 million higher than the $3.6 million on a restated basis expensed for 2004. The restatement of the Non-Cash Compensation expense resulted in an increase in management fees during 2005 and 2004 of approximately $0.3 and $0.2 million, respectively. Please see the "NEW ACCOUNTING POLICIES – Unit-Based Compensation" section below.

An acquisition fee of approximately $2.5 million, representing 1% of the purchase price, before closing adjustments, on the acquisition of Simon Storage, was paid in October 2005 (2004 – $7.2 million).

Capital Expenditures

Inter Pipeline incurred a total of $22.3 million on capital expenditures during 2005 (2004 – $21.0 million) as follows:

(millions)	Growth	Sustaining	**2005 Total**	2004 Total
NGL extraction	$ 2.2	$ 1.4	**$ 3.6**	$ 0.2
Conventional oil pipeline	11.4	2.5	**13.9**	6.4
Oil sands transportation	0.2	0.2	**0.4**	14.4
Bulk liquid storage	1.7	2.7	**4.4**	–
Total	$ 15.5	$ 6.8	**$ 22.3**	$ 21.0

Capital expenditures of $4.0 million were incurred in 2005 on the previously announced Bow River south expansion. This expansion was originally estimated to cost $8.5 million. Current estimates place the expansion costs at $12.8 million. The cost increase is primarily reflective of a rising equipment and construction cost environment and a more refined project scope. Management remains highly supportive of this accretive investment.

In addition, Inter Pipeline completed various commercial development projects for a total of $4.6 million including a battery connection, a pipeline connection to additional diluent supply on the Bow River pipeline as well as additional facility infrastructure to further enhance the Nexen Marketing alliance.

SUMMARY OF QUARTERLY RESULTS

(millions, except per unit and % amounts)	2004 Q1	2004 Q2	2004 Q3(1)	2004 Q4	**2005 Q1**	**2005 Q2**	**2005 Q3**	**2005 Q4(5)**
Revenue								
NGL extraction(1)	n/a	n/a	$ 114.7	$ 185.5	**$ 170.5**	**$ 144.8**	**$ 174.8**	**$ 233.8**
Conventional oil pipeline(4)	$ 26.2	$ 26.1	$ 28.3	$ 27.9	**$ 27.1**	**$ 26.5**	**$ 28.1**	**$ 28.2**
Oil sands transportation(4)	$ 17.1	$ 17.8	$ 19.8	$ 18.6	**$ 15.0**	**$ 15.1**	**$ 15.4**	**$ 17.2**
Bulk liquid storage(5)	n/a	n/a	n/a	n/a	**n/a**	**n/a**	**n/a**	**$ 30.4**
Net income(6)	$ 13.6	$ 13.8	$ 20.2	$ 33.5	**$ 26.8**	**$ 17.1**	**$ 24.5**	**$ 20.9**
Per unit – basic(6)	$ 0.10	$ 0.10	$ 0.12	$ 0.19	**$ 0.15**	**$ 0.09**	**$ 0.13**	**$ 0.11**
Per unit – diluted(6)	$ 0.10	$ 0.10	$ 0.12	$ 0.18	**$ 0.15**	**$ 0.09**	**$ 0.13**	**$ 0.11**
Funds from operations(1)(3)(6)	$ 27.8	$ 27.7	$ 38.7	$ 55.8	**$ 42.1**	**$ 32.8**	**$ 40.0**	**$ 38.1**
Per unit(3)	$ 0.21	$ 0.20	$ 0.23	$ 0.31	**$ 0.23**	**$ 0.18**	**$ 0.22**	**$ 0.21**
Cash distributions(2)(3)	$ 24.4	$ 25.1	$ 32.5	$ 33.7	**$ 34.0**	**$ 34.2**	**$ 34.4**	**$ 35.0**
Per unit(3)	$0.1800	$0.1800	$0.1825	$0.1875	**$0.1875**	**$0.1875**	**$0.1875**	**$0.1900**
Payout ratio(3)(6)	87.7%	90.3%	83.9%	60.4%	**80.8%**	**104.4%**	**86.2%**	**91.8%**
Partnership units outstanding								
Weighted average	133.6	138.9	166.1	179.4	**181.0**	**182.3**	**183.4**	**184.2**
End of period	138.1	139.4	178.0	180.1	**181.9**	**183.0**	**183.9**	**184.6**

(1) The incremental change in the third quarter of 2004 is due to the acquisition of the extraction business on July 28, 2004.
(2) Cash distributions are calculated based on the number of units outstanding at each record date.
(3) Please refer to the "Non-GAAP Financial Measures" section of this MD&A.
(4) Restated for change in segment reporting policy.
(5) The incremental change in the fourth quarter of 2005 is due to the acquisition of Simon Storage bulk liquid storage business on October 4, 2005.
(6) Restated comparative periods due to change in accounting policy regarding Unit Incentive Option Plan.

LIQUIDITY AND CAPITAL RESOURCES

(millions, except for % amounts)	As at December 31 **2005**	2004
Cash, cash equivalents and funds held in trust	**$ 55.5**	$ 4.4
Working capital (deficiency) excluding cash and funds held in trust [(1)]	**$ (4.8)**	$ 21.8
Variable rate debt		
Revolving credit facility	**$ 500.0**	$ 400.0
Revolving credit facility – unutilized	**(74.0)**	(249.0)
Revolving credit facility outstanding	**426.0**	151.0
Less variable rate debt swapped to fixed	**(61.0)**	(62.0)
Total variable rate debt outstanding	**365.0**	89.0
Fixed rate long-term debt		
Loan payable to General Partner	**379.8**	379.8
Debentures	**15.9**	32.5
Add variable rate debt swapped to fixed	**61.0**	62.0
Total fixed rate long-term debt outstanding	**456.7**	474.3
Total debt and Debentures outstanding	**$ 821.7**	$ 563.3
Senior debt to total capitalization [(1)]	**43.4%**	32.6%
Total debt to total capitalization [(1)]	**44.3%**	34.7%

(1) Please refer to the "Non-GAAP Financial Measures" section of this MD&A.

Although Inter Pipeline has increased its borrowing by $258.4 million in 2005 from December 31, 2004 primarily to fund the acquisitions of Simon Storage and TLG, Inter Pipeline applies any excess cash against its outstanding debt to reduce interest costs. Of the $805.8 million of total debt outstanding at December 31, 2005 (excluding Debentures at 10%), $365.0 million was exposed to a period ending variable interest rate of 4.12% with the remaining $440.8 million of fixed term debt having rates ranging from 5.41% to 6.31%.

On January 31, 2006, Inter Pipeline issued 15 million Class A units at $10.00 per Class A unit. The net proceeds of $142.5 million, excluding issuance costs, were applied to reduce the outstanding debt. Had this financing occurred at December 31, 2005, the debt to total capitalization would have been approximately:

Senior debt to total capitalization	35.8%
Total debt to total capitalization	36.7%

Standard & Poor's has maintained Inter Pipeline's BBB long-term corporate credit rating with a stable outlook.

Inter Pipeline's contractual obligations due for the next five years and thereafter are as follows:

		Payments Due by Period			
(millions)	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Credit facility	$ 426.0	$ –	$ 426.0	$ –	$ –
Loan payable to General Partner	379.8	–	–	–	$ 379.8
Debentures	15.9	–	15.9	–	–
Operating leases	46.8	5.8	13.1	5.6	22.3
Total obligations	$ 868.5	$ 5.8	$ 455.0	$ 5.6	$ 402.1

Inter Pipeline increased its credit facility from $400 million to $500 million on September 30, 2005.

Inter Pipeline incurred $4.0 million during the year ended December 31, 2005 on the Bow River south expansion project and continues to enter into construction contracts and to procure equipment as the project progresses.

DISTRIBUTIONS TO UNITHOLDERS

The Limited Partnership Agreement defines a concept of Distributable Cash which is required to be paid by the General Partner to unitholders. The General Partner has the discretion to manage and control the business of Inter Pipeline and specifically, may establish cash reserves that are determined to be necessary or appropriate for the proper management of Inter Pipeline. Changes to any such reserves may be made by the General Partner at any time. Distributable Cash as defined will fluctuate from time to time as a result of many factors, including any such changes in reserves made by the General Partner in the exercise of its discretion.

The definition of Distributable Cash includes different components. The following table generally describes the sources and uses of cash leading to cash distributions.

(millions, except per unit and % amounts)	Years Ended December 31 **2005**	2004
Operating revenue	**$ 926.9**	$ 482.1
Shrinkage gas expense	**(504.8)**	(191.2)
Cash operating expense	**(210.2)**	(101.0)
Cash general and administrative expense	**(17.6)**	(10.4)
Management fees expense [3]	**(3.9)**	(3.6)
Acquisition fee expense	**(2.5)**	(7.2)
Credit facility interest expense	**(9.6)**	(9.7)
Loan payable to General Partner interest expense	**(23.1)**	(4.1)
Interest on Debentures	**(2.2)**	(4.9)
Funds from operations [1]	**153.0**	150.0
Net change in non-cash working capital	**18.8**	(16.2)
Cash provided by operating activities	**$ 171.8**	$ 133.8
Cash distributions [1][2]	**$ 137.7**	$ 115.6
Per unit [1]	**$ 0.7525**	$ 0.7300
Payout ratio [1]	**90.0%**	77.0%
Growth capital expenditures [1]	**$ 15.5**	$ 18.3
Sustaining capital expenditures [1]	**6.8**	2.7
Total capital expenditures	**$ 22.3**	$ 21.0

(1) Please refer to the "Non-GAAP Financial Measures" section of this MD&A.

(2) Cash distributions are calculated based on the number of units outstanding at each record date.

(3) Restated comparative periods due to change in accounting policy regarding Unit Incentive Option Plan.

Concurrently with the acquisition of Simon Storage, Inter Pipeline announced an increase to its monthly cash distributions from $0.0625 to $0.0650 per unit, or $0.78 per unit on an annualized basis. The new target distribution level represents a $0.03 per unit increase relative to Inter Pipeline's previous annualized distribution rate of $0.75 per unit. Unitholders of record at the close of business on December 30, 2005 were eligible for the expected distribution increase, paid on January 16, 2006.

It is the intention of the General Partner of Inter Pipeline to provide unitholders with a stable flow of cash distributions. In this regard, the General Partner has excluded from cash distributions cash received from issuances of equity, proceeds on the sale of assets and an amount equivalent to certain Annual Service Contract Recovery Amounts. These amounts have been reinvested in the business to effectively manage the balance sheet, particularly debt levels, and remain available within Inter Pipeline's credit facilities should they ever be needed to maintain the monthly distributions.

OUTSTANDING UNIT DATA

Inter Pipeline's outstanding units as at December 31, 2005 are as follows:

(millions)	Class A	Class B	Total
Units outstanding	184.4	0.2	184.6
Units reserved for issuance upon exercise of vested Unit Incentive Options	2.5	–	2.5
Units reserved for issuance upon conversion of Debentures	2.7	–	2.7

As at February 21, 2006, Inter Pipeline had 199.6 million Class A units outstanding and 0.2 million Class B units outstanding, for a total of 199.8 million units outstanding, including the 15.0 million Class A units and 15,016 Class B units issued on January 31, 2006 pursuant to the equity offering.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

Inter Pipeline utilizes derivative financial instruments to manage its exposure to changes in power costs, interest rates, foreign currencies and commodity prices. A derivative must be designated and effective to be accounted for as a hedge. The gain or loss incurred on these instruments is recognized in income in the same period as the hedged transactions are settled.

Inter Pipeline's risk management policies are intended to minimize the volatility of Inter Pipeline's exposure to commodity price risk and foreign exchange risk and to assist with stabilizing funds from operations. Inter Pipeline attempts to accomplish this primarily through the use of financial instruments. Inter Pipeline is prohibited from using financial instruments for speculative purposes. All hedging policies are authorized and approved by the Board of Directors through the risk management policy.

Inter Pipeline has four types of "off-balance sheet" financial instruments: power price swap agreements, commodity price swap agreements, foreign currency exchange contracts and interest rate swap agreements. All contracts outstanding at December 31, 2005 and 2004 are being accounted for as hedges.

CONVENTIONAL OIL PIPELINE BUSINESS

Power Prices

Inter Pipeline has entered into electricity price swap agreements in respect of 5.0 MW for 2006 at average prices of $49.50 per MW.h, 5.0 MW for 2007 at average prices of $52.75 per MW.h and 2.5 MW for 2008 at an average price of $54.00 per MW.h. The mark-to-market value of these contracts at December 31, 2005 is an unrecognized gain of $1.7 million.

Contracts outstanding at December 31, 2004 were for 5.0 MW for 2005 at average prices of $46.95 per MW.h and 5.0 MW for 2006 at average prices of $49.50 per MW.h. The mark-to-market value of these contracts resulted in no unrecognized gain or loss at December 31, 2004.

NGL EXTRACTION BUSINESS

The following commodity and foreign currency swaps are used collectively to mitigate the frac-spread risk at the Cochrane extraction facility.

Commodity Prices

NGL

Inter Pipeline established a hedge program to sell certain quantities of NGL products at fixed prices to third party counter parties and buy related quantities of natural gas at fixed prices from third party counter parties in order to manage commodity price ("frac-spread") risk in its extraction business. There were no contracts outstanding at December 31, 2005. Contracts outstanding at December 31, 2004 fixed NGL prices at the following average prices for the period January 1, 2005 to September 30, 2005:

	Average Price (US$/US gallon)	Average Quantity (b/d)
Propane	0.765	3,531
Normal butane	0.875	615
Iso butane	0.873	381
Pentanes plus	1.078	305

The mark-to-market value of these contracts resulted in an unrecognized gain of US$2.3 million at December 31, 2004.

Subsequent to December 31, 2005, contracts to hedge NGL revenues were entered into, which fix NGL prices at the following average prices for the period from February 1, 2006 to March 31, 2006:

	Average Price (US$/US gallon)	Average Quantity (b/d)
Propane	0.976	5,000
Normal butane	1.230	890
Iso butane	1.245	551
Pentanes plus	1.533	441

Natural Gas

There were no contracts outstanding at December 31, 2005 to hedge natural gas purchases. Contracts outstanding at December 31, 2004 fixed an average of 19,487 gigajoules per day at an average price of $7.252 per gigajoule for the period January 1, 2005 to September 30, 2005. The mark-to-market value of these contracts resulted in an unrecognized loss of $6.1 million at December 31, 2004.

Subsequent to December 31, 2005, contracts to hedge natural gas purchases were entered into, which fix natural gas prices at an average price of $9.076 per gigajoule for the period from February 1, 2006 to March 31, 2006 for average quantities of 27,797 gigajoules per day.

Foreign Currency

The NGL price swap agreements are calculated based on U.S. dollar prices. Therefore, consistent with the NGL and natural gas hedges, there were no foreign currency contracts outstanding at December 31, 2005. Contracts outstanding at December 31, 2004 fixed an average of US$5.4 million per month at an average rate of US$0.769 per Canadian dollar for the period January 1, 2005 to March 31, 2005. The mark-to-market value of these contracts resulted in an unrecognized gain of $1.6 million at December 31, 2004.

Subsequent to December 31, 2005, Inter Pipeline entered into contracts to sell an average of US$9.1 million per month at an average fixed rate of US$0.863 per Canadian dollar for the period February 1, 2006 to March 31, 2006.

Power Prices

To manage electricity price exposure at the Cochrane plant, Inter Pipeline entered into a heat rate swap contract subsequent to December 31, 2005 for 14.0 MW of electric power per hour for the period January 1, 2006 to December 31, 2006, at a price equal to 6.90 GJs/MW.h multiplied by the AECO monthly index price. These contracts will not be accounted for as hedges and will be marked-to-market each reporting period.

CORPORATE

Interest Rates

$61.0 million of the outstanding debt at December 31, 2005 (2004 – $62.0 million) is subject to a continuing swap agreement, in which the floating rate bank debt has been exchanged for an average fixed rate of 6.1%. The fair market value of the remaining interest rate swap agreements aggregates to an unrecognized loss of $5.1 million at December 31, 2005 compared to an unrecognized loss of $6.3 million at December 31, 2004. Of the $61.0 million of interest rate swaps outstanding at December 31, 2005, $15.0 million is set to expire on September 30, 2006.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties for the years ended December 31, 2005 and 2004.

Inter Pipeline has entered into a support agreement that enables Inter Pipeline to request Pipeline Assets Corp. ("PAC"), the shareholder of the General Partner, and its affiliates to provide certain personnel and services to the General Partner to fulfill its obligations to administer and operate Inter Pipeline's business. Such services are incurred in the normal course of operations and amounts paid for such services are at fair value for the services provided. No amounts were paid in 2005 or 2004 under the support agreement.

Amounts due to/from the General Partner and its affiliates related to these services are non-interest bearing and have no fixed repayment terms with the exception of the loan agreement with the General Partner. At December 31, 2005, there were amounts owed to the General Partner by Inter Pipeline of $0.3 million (December 31, 2004 – $0.5 million).

Management fees of $3.9 million were earned by the General Partner in 2005 (2004 – $3.6 million). Acquisition fees of $2.5 million were paid in the year (2004 – $7.2 million).

Inter Pipeline has entered into a loan agreement with the General Partner for $379.8 million. The General Partner has earned $0.2 million from Inter Pipeline in interest income during the year (2004 – nil), on a net basis, after paying interest expense to the ultimate note holders.

The General Partner's 0.1% partnership interest, represented by Class B units, is controlled by PAC. The General Partner is a wholly-owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain of the officers and a director of the General Partner have non-voting shares in PAC that entitle them to dividends. The entitlement to retain these shares of PAC and to receive dividends is tied to the continuing employment or service as a director of the General Partner. These certain officers and director of the General Partner received a total of $0.7 million in dividends from PAC pursuant to their non-voting shares (2004 – $0.3 million).

EVALUATION OF EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at December 31, 2005, Inter Pipeline's management, including the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of Inter Pipeline's disclosure controls and procedures as defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers Annual and Interim Filings. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of December 31, 2005.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of our financial reporting and compliance with Canadian generally accepted accounting principles in our consolidated financial statements. Inter Pipeline continues to evaluate its internal controls over financial reporting and expects to comply with the current draft of Multilateral Instrument 52-111 Reporting on Internal Control over Financial Reporting for its first anticipated certification date of December 31, 2007.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Inter Pipeline's Consolidated Financial Statements requires management to make critical and complex judgements, estimates and assumptions about future events, when applying generally accepted accounting principles ("GAAP"), that have a significant impact on the financial results reported. These judgments, estimates, and assumptions are subject to change as the future events occur or new information becomes available. Readers should also refer to Note 1 of the Consolidated Financial Statements for a list of Inter Pipeline's significant accounting policies.

INTANGIBLE ASSETS

The Transportation Services Agreement ("Cold Lake TSA") intangible asset is the estimated value, using a discounted cash flow analysis, of the shipping agreements entered into with the Founding Shippers on the Cold Lake pipeline system as valued on January 2, 2003. Although the ship or pay portion of the Cold Lake TSA expires on December 31, 2011, the term of the Cold Lake TSA extends until the Cold Lake L.P. gives notice that it forecasts it will earn less than $1 million of capital fees in the year. After December 31, 2011 the Founding Shippers may contract with a third party to transport their dedicated petroleum after giving the Cold Lake L.P. notice of at least 20 months prior to the effective date and meeting certain conditions. The Cold Lake L.P. has the right to match any new service offer from a third party. Therefore, this intangible asset is being amortized on a straight line basis over the estimated service life of 30 years of the Cold Lake L.P.'s property, plant and equipment to which the Cold Lake TSA relates as management believes it is likely the

contracts will be renewed into the future. Should the useful life of the Cold Lake pipeline system assets change or the likelihood of the renewal of the Cold Lake TSA change, the amortization of the remaining balance would change accordingly.

The NGL extraction business customer contracts intangible asset represents the estimated value of the contracts as at July 28, 2004 when the NGL extraction business was acquired. Although the contracts expire over a period ranging from five years to twenty years as at the date of acquisition, this intangible asset is being amortized over the estimated useful life of 30 years of the extraction facilities as management believes it is likely the contracts will be renewed into the future. Should the useful life of the extraction facilities assets change or the likelihood of the renewal of the customer contracts change the amortization of the remaining balance would change accordingly.

The bulk liquid storage business intangible asset represents the estimated value of the customer contracts, customer relationships, trade name and software as at October 4, 2005 when the bulk liquid storage business was acquired. This intangible asset is being amortized over the estimated useful life of the contracts, which range from 20 to 30 years, as management believes it is likely the contracts will be renewed into the future. Should the useful life of the bulk liquid storage facilities assets change or the likelihood of the renewal of the customer contracts change the amortization of the remaining balance would change accordingly.

PROPERTY, PLANT AND EQUIPMENT ("PP&E")

Included in PP&E are estimates of the life of the assets, whether or not an impairment in their value has been incurred and depreciation methods. Due to the value of the assets being depreciated the resulting depreciation is a material amount in determining net income of Inter Pipeline.

GAAP requires that if the undiscounted value of the estimated future net cash flows, combined with any estimated residual value, are less than the carrying value of the asset, an impairment must be recognized in the financial statements as a charge to earnings. The conventional oil pipeline business has a long record of strong and stable cash flows and based on management's estimates of future cash flows we have determined the carrying value of the conventional oil pipeline business PP&E to be appropriate. The estimated net future cash flows of the NGL extraction business and the newly acquired bulk liquid storage business also support the current carrying value of their respective PP&E.

Effective January 1, 2005, Inter Pipeline revised its estimate of the future useful life of its pipeline assets, other than the Cold Lake pipeline system assets. Based on events such as the Bow River Expansion and oil reserve life natural decline patterns of the pipeline assets, management believes that the estimated useful life of the assets will be in excess of 30 years. Management also believes that this change in useful life would be better reflected using the straight line method of accounting for depreciation. Therefore, Inter Pipeline is now depreciating the conventional oil pipeline assets over 30 years on a straight line basis. This is consistent with the depreciation of the Cold Lake pipeline system assets and the NGL extraction business assets. The impact of this change in 2005 is to decrease depreciation and amortization expense and increase net income by $17.0 million.

Both the Cold Lake pipeline system PP&E and the NGL extraction business PP&E are being depreciated on a straight line basis over 30 years, consistent with their respective intangible assets. Although management believes the asset life could exceed 30 years as is typical with these types of assets, management felt 30 years to be a conservative time period.

The bulk liquid storage business PP&E is being depreciated on a straight line basis over 30 years. Although management believes the asset life could exceed 30 years as is typical with these types of assets, management felt 30 years to be a conservative time period.

ASSET RETIREMENT OBLIGATION

The accounting for asset retirement obligations is for the legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction or development and/or the normal operations of a long-lived asset. The retirement of a long-lived asset includes its other than temporary removal from service, including its sale, abandonment, recycling or disposal in some manner but not its temporary idling. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to income, or until Inter Pipeline settles the obligation. In addition, the asset

retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset and depreciated over the asset's useful life.

The PP&E of the conventional oil pipeline and oil sands transportation businesses consist primarily of underground pipelines and above ground equipment and facilities. No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to reasonably estimate the fair value of the liability due to the indeterminate timing and scope of the asset retirements. As the timing and scope of retirements become determinable for certain or all assets, the fair value of the liability and the cost of retirement will be recorded at that time. Pipeline operations will be charged with any costs associated with the future site restoration of the pipeline assets. The potential costs of future site restoration will be a function of several factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline, to removal of the pipeline and reclamation of the right-of-way.

The PP&E of the NGL extraction and the bulk liquid storage businesses consist mainly of three extraction plants and seven storage facilities, respectively. Inter Pipeline's asset retirement obligation with respect to these assets represents the net present value of the expected cost to be incurred upon the termination of operations and closure of these active facilities. The original discounted amounts of $15.0 million (extraction) and $0.9 million (storage) will be accreted over time at rates of 6.4% and 7.8% per annum, respectively, to their estimated future values of $161.7 million and $9.0 million, respectively.

ENVIRONMENTAL LIABILITIES

Included in accrued liabilities is an amount for future environmental liabilities on an undiscounted basis. Management has identified a number of environmental projects that Inter Pipeline is obligated to remediate in the future. An accrual must be made when an obligation exists, and the entity should make estimates using current regulations and technology. Therefore, an undiscounted amount has been accrued in these consolidated financial statements using management's best knowledge of sites requiring remediation and the plans that would be put in place to clean up these sites. The actual cash outlay to complete the remediation plans could take place over a time period that may be in excess of 20 years.

UNIT-BASED COMPENSATION

Under Inter Pipeline's UIOP, options to purchase Class A units may be granted to directors, officers, employees, and consultants of the General Partner. Options issued are accounted for in accordance with the fair value method of accounting for unit-based compensation. As such the fair value of each unit is determined as at the date of grant using a binomial pricing model and is then amortized as an expense over the vesting period. Please see "NEW ACCOUNTING POLICIES – Unit-Based Compensation" below for a further discussion on this matter.

GOODWILL

Goodwill, which was created upon the acquisition of Simon Storage, represents the excess of the purchase price over the fair value of the net identifiable assts of operations acquired. Goodwill is carried at initial cost less write-down for impairment. If the carrying value of the bulk liquid storage business exceeds its fair value, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its fair market value. During each fiscal year and as economic events dictate, management reviews the valuation of the goodwill, taking into consideration any events or circumstances which might have impaired the fair value. Inter Pipeline intends to assess the fair value of this goodwill amount for impairment at least annually by discounting the projected future cash flows generated by these assets at Inter Pipeline's cost of capital. If it is determined that the fair value of the future cash flows is less than the book value of the assets at the time of assessment, an impairment amount will be determined by deducting the fair value of the cash flows from the book values and applying it against the book balance of goodwill. There has not been an impairment test performed since the date of acquisition on October 4, 2005.

OBLIGATIONS RELATING TO EMPLOYEE PENSION PLANS

Inter Pipeline provides retirement benefits for its United Kingdom and the Republic of Ireland employees under two separate defined benefit plans. The defined benefit plans provide benefits that are based on a

combination of years of service and final pensionable salary. Inter Pipeline's policy regarding the defined benefit plans is to fund the amount that is required by the governing legislation. Independent actuaries perform the required calculations to determine pension expense in accordance with GAAP. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liabilities related to the plans. The actuarial assumptions used may differ from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may affect the net pension expense and liability recorded.

NEW ACCOUNTING POLICIES

CHANGE IN ESTIMATE

Effective January 1, 2005, Inter Pipeline has amended its estimates for calculating depreciation on the pipeline facilities and equipment of the conventional gathering system of the conventional oil pipeline business. It was determined that due to a change in circumstances and experience gained in the last few years, the straight-line method of depreciation would better reflect a matching of the depreciation of the pipeline assets to the decline in the revenue-producing volume throughput of these assets. The estimated remaining service life of these assets has also been re-evaluated and revised to thirty years to better reflect the number of years over which these pipeline facilities and equipment will be in operation, which is also tied in to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems.

SEGMENT REPORTING

In 2005, Inter Pipeline changed its policy for segment reporting to separate the previously reported pipeline business into the conventional oil pipeline and oil sands transportation businesses. This change has been made to distinguish the contractual-based results of operations of the oil sands transportation business from the conventional oil pipeline business. These segments' operations are still primarily the transportation, storage and processing of hydrocarbons, however the revenues and costs are derived differently and therefore they are being evaluated and managed separately.

VARIABLE INTEREST ENTITIES

The Accounting Standards Board has issued Canadian Accounting Guideline 15 (AcG 15), "Consolidation of Variable Interest Entities," which is now effective as of January 1, 2005. This standard requires companies to identify variable interest entities in which they have an interest, determine whether they are the primary beneficiary of such entities and, if so, consolidate them for financial reporting purposes. Inter Pipeline has reviewed its investments and has concluded that no adjustments are required to the consolidation methods being used to account for its ownership interests in these entities. An assessment of this standard, as it relates to the acquisition of Simon Storage, has been completed and it has been determined that this standard has no impact on Inter Pipeline's consolidated financial statements. Inter Pipeline has yet to assess the impact of this policy related to its accounting for its acquisition of TLG and potential acquisition of Cactus Lake.

UNIT-BASED COMPENSATION

As a result of additional guidance published in Canada and the United States surrounding the accounting for stock based compensation, particularly with respect to the valuation methods used under the fair value method of valuing options, Inter Pipeline has reviewed its method of determining the fair value of its unit-based compensation expense.

Inter Pipeline has determined after consultation with its auditors and the Alberta Securities Commission that, effective for the fourth quarter of 2005, it is preferable to change its method of accounting for unit-based compensation expense to the fair value method. This change has been accounted for retroactively with a positive restatement of prior years' net income. The restatement increased net income in each of the years ended December 31, 2005, 2004 and 2003. The amounts of these increases to net income are approximately $12.9 million, $9.1 million and $1.2 million, respectively. The resultant net income for these same periods has become $89.3 million, $81.1 million and $14.8 million, respectively. There was no material impact on funds from operations in these respective periods. See "CORPORATE – Management and Acquisition Fees" section above.

Inter Pipeline previously valued the unit incentive options ("Options") issued under its UIOP using the intrinsic value method, whereby the resulting net change in the number of vested Class A units outstanding combined

with the net change in the value of the Class A units, from reporting period to reporting period, is recorded in the income statement in each reporting period. Under the fair value method, the value of each of the Options is determined on the date of grant using a binomial option pricing model, and that value is amortized as an expense over the vesting period of the Options.

FOREIGN CURRENCY TRANSLATION

With the acquisition of Simon Storage on October 4, 2005 and TLG on January 1, 2006, Inter Pipeline has implemented an accounting policy for accounting for foreign currency translation. Inter Pipeline has determined that Simon Storage and TLG are self-sustaining operations. Therefore, the accounts of Simon Storage and TLG are translated using the current rate method, whereby assets and liabilities are translated at period-end exchange rates, while revenues and expenses are translated using average rates during the period from the date of acquisition. Translation gains and losses relating to these self-sustaining operations are included as a separate component of Partners' Equity.

PENSION PLANS

The cost of pension benefits earned by certain of the Simon Storage employees covered by the defined benefit pension plans is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, final pensionable salary, terminations, and retirement ages of plan members. Plan assets are valued at fair value for the purpose of determining the expected return on plan assets. Adjustments for plan amendments are expensed over the expected average remaining service life of the employee group, which is approximately 14 years and 16 years for certain of the United Kingdom and the Republic of Ireland employees, respectively. Actuarial gains and losses arise from changes in assumptions and differences between assumptions and the actual experience of the pension plans. The excess of accumulated actuarial gains and losses over 10% of the greater of the benefit obligation and the fair value of plan assets is also charged to operations over the expected average remaining service life of the employee group.

The costs of pension benefits for certain of the Simon Storage employees covered by the defined contribution pension plan are expensed as the contributions are earned in the reporting period.

INCOME TAXES

Under existing tax legislation, Inter Pipeline is not subject to income taxes directly. The limited partners and the General Partner are subject to tax on their proportionate interests of the taxable income allocated by Inter Pipeline.

Certain of Inter Pipeline's subsidiaries are taxable corporations in Canada, the United Kingdom, Germany and the Republic of Ireland.

FUTURE INCOME TAXES

Inter Pipeline's future income tax liability arises due to its consolidation of the Simon Storage and TLG businesses and the proportionate consolidation of its 85% ownership in Cold Lake Pipeline Ltd., the General Partner of the Cold Lake L.P.

The future income tax related to Simon Storage and TLG is based on the differences between the accounting basis and tax basis of the assets and liabilities in the various subsidiaries.

The future income tax related to Cold Lake Pipeline Ltd. is based on differences between the accounting basis and tax basis of the Cold Lake Pipeline Ltd.'s investment in the Cold Lake L.P. This is offset by Cold Lake Pipeline Ltd.'s accumulated losses.

The future tax liability is calculated using the substantively enacted tax rates and laws that will be in effect when these temporary timing differences are expected to reverse as required by the liability method of accounting for income taxes. The effect of future changes in income tax rates will be recognized in net income in the period in which the change occurs.

BUSINESS RISKS

Management has summarized below, what it considers to be important business risks that could potentially have a material impact on the operations and financial results of Inter Pipeline.

RISKS INHERENT IN THE NGL EXTRACTION BUSINESS

Natural Gas Availability and Composition

The volumes of natural gas processed at the extraction plants depend on the throughput of the Foothills/Northern Border System and TransCanada Alberta System from which the extraction plants source their natural gas supply. Without reserve additions or other new sources of gas supply, throughputs will decline over time as reserves are depleted in the areas these pipeline systems service. Natural gas producers in these service areas also may not be successful in exploring for and developing additional reserves, or commodity prices may not remain at a level that encourages gas producers to explore for and develop additional reserves or to produce existing marginally economic reserves. In addition, the pipeline systems that service the extraction plants may also face competition from other existing or proposed natural gas transmission systems that are not or will not be connected to the extraction plants, resulting in unprocessed natural gas bypassing the extraction plants. Also, in order to continue to be entitled to extract NGL from natural gas being transported on the natural gas transmission systems straddled by the extraction plants, Inter Pipeline will be required to continue to negotiate extraction agreements with the various natural gas shippers holding the rights to such NGL from time to time, and there is no assurance that Inter Pipeline will be able to renew contracts of the NGL extraction business to extract NGL on economic terms or at all.

The production of NGL from the extraction plants is largely dependent on the quantity and composition of the NGL within the natural gas streams that supply the extraction plants. The quantity and composition of NGL may vary over time. Factors such as an increased level of natural gas processing conducted at field processing plants upstream of the extraction plants, or processing completed at any new extraction plants constructed upstream of the extraction plants, or changes in the quantity and composition of the natural gas produced from the reservoirs that supply the extraction plants could have a material effect on NGL production from the extraction plants.

Operational Factors

Inter Pipeline's operations are subject to common hazards of the NGL extraction business. The operation of the extraction plants could be disrupted by natural disasters or other events beyond the control of Inter Pipeline. A casualty occurrence could result in the loss of equipment or life, as well as injury and property damage. Inter Pipeline will carry insurance coverage with respect to some, but not all, casualty occurrences in amounts customary for similar business operations, which coverage may not be sufficient to compensate for all casualty occurrences.

The operation of the extraction plants will involve many risks, including urban encroachment around the facilities (particularly the Cochrane plant), the breakdown or failure of equipment, information systems or processes, the performance of equipment at levels below those originally intended (whether due to misuse, unexpected degradation or design, construction or manufacturing defects), failure to maintain an adequate inventory of supplies or spare parts, operator error, labour disputes, disputes with owners of interconnected facilities and carriers and catastrophic events such as natural disasters, fires, explosions, chemical release, fractures, acts of eco-terrorists and saboteurs, and other similar events, many of which are beyond the control of Inter Pipeline. The occurrence or continuance of any of these events could increase the cost of operating facilities and/or reduce its processing or throughput capacity, thereby reducing cash flow.

The extraction plants are connected to various third party trunkline systems including the TransCanada Alberta System, Foothills/Northern Border System, Kerrobert pipeline, Co-Ed pipeline and AEGS. Operational disruptions or apportionment on those third party systems and/or disruptions at the other facilities in the Empress area may prevent the full utilization of the extraction plants.

Operating and Capital Costs

Operating and capital costs of the extraction plants may vary considerably from current and forecast values and rates and represent significant components of the cost of providing service. In general, as equipment ages, maintenance capital expenditures and maintenance expenses with respect to such equipment may increase over time. Distributions may be reduced if significant increases in operating or capital costs are incurred.

Although certain operating costs are to be recaptured through the payments charged on natural gas volumes processed or through other cost-of-service arrangements, there is no guarantee that all costs will be fully recovered. While Inter Pipeline will manage operational and capital cost risks through a variety of methods including cost control programs and preventative maintenance initiatives, Inter Pipeline's operating results would be adversely affected if significant increases in operating or capital costs were incurred.

Competition

The extraction plants are subject to competition from other extraction plants that are in the general vicinity of the extraction plants or that may be constructed “upstream” of the extraction plants. The extraction plants are also subject to competition from field processing facilities that extract NGL from the natural gas streams before injection into the TransCanada Alberta or Foothills/Northern Border systems.

To the extent that other existing or newly constructed extraction or field processing plants are successful in securing natural gas supply currently processed at the extraction plants, or are successful in removing significant amounts of NGL from the gas supply “upstream” of the extraction plants, this will adversely affect Inter Pipeline's revenues and operating results.

Similarly, there is no assurance that new sources of natural gas supply that may be developed in frontier areas such as Alaska and the Mackenzie Delta in the Northwest Territories will be transported via the natural gas transmission systems straddled by the extraction plants or that new extraction plants will not be constructed “upstream” of the extraction plants to process that natural gas.

Commodity Price; Frac-Spread

Inter Pipeline's exposure to commodity price risk applies to only the propane-plus volumes produced at the Cochrane NGL extraction plant. Inter Pipeline is exposed to the relative price differential between the NGL produced and the shrinkage gas used to replace the heat content removed during extraction of the NGL from the natural gas stream. The amount of profit made from this portion of the NGL extraction business will increase or decrease as the difference between the price of the applicable NGL and the price of natural gas varies.

Extraction Rights

One of the elements affecting the amount of profit made from the NGL extraction business is the cost of the compensation Inter Pipeline will need to provide under extraction rights agreements with gas shippers under which the extraction plants obtain the right to extract NGL from the natural gas throughput of the facilities. This compensation is typically comprised of the obligation to supply shrinkage gas (or sometimes to pay for shrinkage), and frequently there is also a fee or premium paid to the supplier for the extraction right. Currently, the cost of supplying shrinkage gas is the most significant element in the extraction rights compensation. Although historically it has been possible to obtain extraction rights for moderate fee premiums, it is possible that the fee premiums associated with extraction rights contracts could increase, which would adversely affect the margin and profits of the NGL extraction business. A reduction in the margin and profits of the NGL extraction business could materially and adversely affect the business, financial condition, liquidity, results of operations and Distributable Cash of Inter Pipeline, thereby resulting in a decrease in distributions to Unitholders.

Reliance on Dow Chemical, NOVA Chemicals and BP Canada

Dow Chemical, NOVA Chemicals and BP Canada are the principal customers of the NGL extraction business and represent the vast majority of the accounts receivable of the NGL extraction business. BP Canada also operates the Empress II and Empress V extraction plants. If for any reason these parties were unable to perform their obligations under the various agreements with Inter Pipeline, the revenue and distributions of Inter Pipeline, or the operations of the Empress II and V facilities could be negatively impacted.

RISKS INHERENT IN THE CONVENTIONAL OIL PIPELINE AND OILS SANDS TRANSPORTATION BUSINESSES

Demand and Supply Risks

Over the long term, the business of Inter Pipeline will depend, in part, on the level of demand for crude oil in the geographic areas in which deliveries are made by the pipeline assets and the ability and willingness of shippers having access or rights to utilize the pipeline assets to supply such demand. Inter Pipeline cannot predict the impact of future economic conditions, fuel conservation measures, alternative fuel requirements, governmental regulation (including those resulting from the ratification of the Kyoto Protocol or similar

initiatives discussed below) or technological advances in fuel economy and energy generation devices, all of which could reduce the demand for crude oil.

Future throughput on the Pipelines and replacement of crude oil reserves in their service areas is dependent upon the success of producers operating in those areas in exploiting their existing reserve bases and exploring for and developing additional reserves. Reserve bases necessary to maintain long term supply cannot be assured and crude oil price declines, without compensating reductions in costs of production, may reduce or eliminate the profitability of production and the supply of crude oil for the Pipelines. While reserve additions and increased recovery rates historically have tended to offset natural declines in crude oil production in the areas serviced by the Pipelines, reserve additions in recent years have not been sufficient to offset natural declines in produced volumes in the service areas which reduces the likelihood that reserve additions and increased recovery rates will offset natural declines in crude oil production in the future. Sustained low crude oil prices could lead to a decline in drilling activity and production levels or the shutting-in or abandonment of marginal wells. Drilling activity, production levels and shut-in or abandonment decisions may also be affected by the availability of capital to producers for drilling, allocation by producers of available capital to drilling for oil as compared to natural gas, current or projected crude oil price volatility, overall supply and demand expectations and light-to-heavy oil price differentials. Particularly in the case of the Bow River, Central Alberta, Mid-Saskatchewan and Valley Pipeline Systems, Inter Pipeline is dependent on producers' continuing crude oil exploration and development activity and on technological improvements leading to increased recovery rates in order to offset natural declines in crude oil production in the areas serviced by the pipelines. Absent the continuation of such activities and improvements, the volumes of crude oil transported through the pipelines will decline over time as reserves are depleted.

Except in the case of the Cold Lake pipeline system, the majority of the toll revenue from the pipeline assets has been and will continue to be derived from contracts or arrangements of 30 days duration or less with producers in the geographic areas served by the pipelines. There can be no assurance that such contracts will continue to be renewed or, if renewed, will be renewed upon favourable terms to Inter Pipeline. Inter Pipeline's supply contracts with producers in the areas served by the Bow River, Central Alberta, Mid-Saskatchewan and Valley Pipeline Systems are based on market-based toll structures negotiated from time to time with individual producers rather than the cost-of-service recovery-fixed rate of return structures applicable to some other pipelines. These pipelines are and will continue to be subject to market competitive factors.

The minimum annual toll revenues from the Cold Lake pipeline system are derived from the "ship-or-pay" provisions of the Cold Lake TSA dated October 5, 2000 between the Cold Lake L.P. and the original shippers on the Cold Lake pipeline system ("Cold Lake Founders"), which arrangements continue until 2011. The minimum annual fee under these "ship-or-pay" provisions declines over time to 2011 pursuant to the Cold Lake TSA. Although volumes that are shipped by the Cold Lake Founders from the reserves dedication area while under the Cold Lake TSA are generally committed to the Cold Lake pipeline system, the Cold Lake Founders may utilize alternative transportation sources after 2011 (if certain minimum volume levels are maintained) subject to the Cold Lake L.P.'s right to match the alternative proposal. Consequently, there can be no assurance to Inter Pipeline of the level of volumes or revenues received from the Cold Lake Founders following the "ship-or-pay" period. The Cold Lake L.P. can supplement volumes and revenues from the Cold Lake Pipeline by marketing excess capacity to third parties, but there can be no assurance that Inter Pipeline will be successful in doing so. Toll revenue is payable monthly based upon volumes shipped. Any shortfall between the volumes shipped and the "ship-or-pay" commitment level are payable following a 13th month adjustment.

Operational Factors

Inter Pipeline's operations are subject to the customary hazards of the crude oil transportation business. Inter Pipeline's operations could be interrupted by failures of pipeline, pumps and equipment or natural disasters or other events beyond the General Partner's control including acts of terrorists or other third-party damage to the pipeline assets. A casualty occurrence might result in the loss of equipment or life, as well as injury and property damage. Inter Pipeline carries insurance with respect to some, but not all, casualty occurrences and disruptions, which coverage may not be sufficient to compensate for all casualty occurrences.

The pipelines are connected to various third party trunkline systems such as the Enbridge, Express and Trans Mountain pipelines and Edmonton area refineries. Operational disruptions or apportionment on those third party systems or refineries may prevent the full utilization of the pipeline assets.

A significant operating cost of Inter Pipeline is electrical power. Deregulation of the Alberta electrical power market has contributed to increased volatility in electrical power prices. Factors such as a shortage of electrical power supply or high natural gas prices could contribute to higher electrical power prices, which may result in higher operating costs for Inter Pipeline.

The General Partner has an integrity management program that includes, among other things, key elements such as in-line inspection, cathodic protection, internal corrosion control and leak detection. This program is designed primarily to manage the physical degradation of the pipeline assets and, if practicable, extend their useful life. While the General Partner believes the program is consistent with industry practice, increasingly strict operational regulations or new data on the condition of the pipeline assets could result in repair or upgrading activities that are more extensive and costly than in the past. Such developments could contribute to higher operating costs for Inter Pipeline or the termination of operations on the affected portion of the pipeline assets.

Competition

The pipelines are subject to competition for volumes transported from trucking or other pipelines near the areas serviced by the pipelines. Competing pipelines could be constructed in areas serviced by the pipelines. The Cold Lake pipeline system is operated pursuant to long-term contracts with shippers who have committed to utilizing the Cold Lake pipeline system and paying for such usage over the term of the contract. The Bow River, Central Alberta, Mid-Saskatchewan and Valley pipeline systems are operated primarily under contracts or arrangements of 30 days duration or less.

Rights-of-Way and Access

Successful development of the pipeline assets through construction of new pipelines or extensions to existing pipelines depends in part on securing leases, easements, rights-of-way, permits or licenses from landowners or governmental authorities allowing access for such purposes. In general, the process of securing rights-of-way or similar access is becoming more complex, particularly in more densely populated and other sensitive areas. The Cold Lake pipeline system operates in the Edmonton area and within the Cold Lake Air Weapons Range. Although pipelines have been constructed in both areas by other pipeline operators in recent years, these are two of the more difficult areas in which to secure pipeline rights-of-way in the Province of Alberta.

Multi-Jurisdictional Regulation

The pipeline assets are subject to intra-provincial and multi-jurisdictional regulation, including regulation by the AEUB in Alberta, and Saskatchewan Industry and Resources in Saskatchewan. As a result, the results of operations of Inter Pipeline may be affected by changes directed by such regulatory authorities.

The Bow River, Central Alberta, Valley and Cold Lake Pipeline Systems are wholly within the boundaries of the Province of Alberta and are primarily subject to regulation under the *Pipeline Act* (Alberta) and *Pipeline Regulation* (Alberta), and by the AEUB. The Mid-Saskatchewan pipeline system is wholly within the boundaries of the Province of Saskatchewan and is subject to regulation under the *Pipelines Act* (Saskatchewan) and the *Pipeline Regulation* (Saskatchewan) and by Saskatchewan Industry and Resources. None of the pipelines are subject to regulation by the National Energy Board.

Oil pipelines in Alberta may be subject to rate regulation by the AEUB under the *Public Utilities Board Act* (Alberta). See "BUSINESS RISKS - Regulatory Intervention". In Saskatchewan, oil pipelines may similarly be subject to rate regulation under the *Pipelines Act* (Saskatchewan).

No rate regulation orders have been made against any of the Pipelines. Tolls charged on these systems are set by negotiations between the parties.

RISKS INHERENT IN THE STORAGE BUSINESS

Demand for Bulk Liquid Storage

Inter Pipeline's bulk liquid storage business is primarily involved in the provision of bulk liquid storage and handling services for multinational petroleum refining and petrochemical businesses. The products stored and handled at the Simon Storage terminals are generally either feedstocks for petrochemical plants and refineries or are products produced from those facilities. As a result, a sustained slowdown in either the petroleum refining or petrochemical sectors serviced by the bulk liquid storage business could adversely affect Inter Pipeline's revenue and operating results.

The Immingham storage terminal, Inter Pipeline's largest European terminal, is highly integrated with two local refineries, the ConocoPhillips Humber refinery and the Total Lindsay refinery. The closure of one or both refineries would significantly reduce revenues from the bulk liquid storage business.

Competition

The bulk liquid storage business faces competition from other independent bulk liquid terminals which operate in several of the regions serviced by Inter Pipeline's terminals. Certain of the bulk liquid storage business' customers also have the option to store products at their own storage facilities. As a result, customers could elect in the future to make alternative arrangements for the storage and handling of their products resulting in a decline in bulk liquid storage business' revenue.

Contract Renewal

Storage contracts in the bulk liquid storage business have terms ranging from less than one year to over 20 years. Historically many contracts have been renewed upon expiry. However, this trend may not continue into the future and contracts may not be renewed due to several factors including customer default or closure, customer consolidation or loss of customers to competitors.

Operational Factors

The operation of the bulk liquid storage business is subject to hazards which are customary to the bulk liquid storage industry. Operations could be interrupted by equipment failures, natural disasters or other events beyond the General Partner's control including acts of terrorists or other third-party damage. A casualty occurrence might result in the loss of equipment or life, as well as injury and property damage. Inter Pipeline carries insurance with respect to some, but not all, casualty occurrences and disruptions, which coverage may not be sufficient to compensate for all casualty occurrences.

Operational disruptions of key petrochemical or refining customers may result in a reduction in storage revenue until such disruptions are resolved.

The bulk liquid storage business has preventative maintenance programs that are designed to manage the physical degradation of key equipment. While the General Partner believes the programs are consistent with industry practice, increasingly strict operational regulations or new data on the condition of equipment could result in repair or upgrading activities that are more extensive and costly than in the past. Such developments could contribute to higher operating costs for Inter Pipeline or the termination of operations on the affected portion of the bulk liquid storage business.

Defined Benefit Pension Plans

Two separate defined benefit pension plans exist for certain employees of the bulk liquid storage business. The two plans hold interests in various securities and assets including equities, fixed income instruments and real estate. Should the liabilities of the plans exceed the plan's assets, additional cash contributions may be required by Inter Pipeline, which would adversely affect the operating results of the bulk liquid storage business.

GENERAL RISKS

Regulatory Intervention and Changes in Legislation

Facilities and pipelines can be subject to common carrier and common processor applications and to rate setting by regulatory authorities in the event agreement on fees or tariffs cannot be reached with producers, shippers and other customers. To the extent that producers, shippers or other customers believe processing fees or tariffs are too high, they may seek rate relief through regulatory means.

Although the fees charged to customers of the conventional oil pipeline, oil sands transportation, the NGL extraction and the bulk liquid storage businesses have not been set or restricted by any regulatory agency, an application to the governing agency for the setting of fees could result in a reduction of fees and decreased revenues to Inter Pipeline.

Income tax laws relating to the oil, petrochemical and natural gas industry or Inter Pipeline, environmental and applicable operating legislation, and legislation and regulatory rules governing the oil, petrochemical and natural gas industry, including rights to NGL and their extraction, may be changed in a manner which adversely affects the operations or financial results of Inter Pipeline.

Environmental Costs and Liabilities

The operations of Inter Pipeline are subject to European Union, German, the Republic of Ireland, the United Kingdom and Canadian federal and provincial laws and regulations relating to environmental protection and European Union, German, the Republic of Ireland, the United Kingdom and Canadian federal and provincial laws and regulations relating to operational safety. Operation of certain of the conventional oil pipeline, oil sands transportation, the NGL extraction and the bulk liquid storage businesses has spanned several decades. While the remediation of releases or contamination during such period may have met then-current environmental standards, such remediation may not meet current or future environmental standards and historical contamination may exist for which Inter Pipeline may be liable. Inter Pipeline has completed internal environmental reviews of certain assets that have attempted to identify locations of historic contamination and several locations have been remediated. As these reviews have not included all assets, all locations of historic contamination may not have been discovered yet. The remaining identified but unremediated sites will be addressed in a prioritized manner utilizing industry practices with some locations having multi-year restoration plans.

It is possible that other developments, such as increasingly strict environmental and safety laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from Inter Pipeline's operations and previously undiscovered locations of historical contamination, could result in substantial costs and liabilities to Inter Pipeline. If, at any time, regulatory authorities deem any of Inter Pipeline's assets unsafe, they may order it shut down. If Inter Pipeline was not able to recover such resulting costs through insurance or increased tolls, distributions to Class A unitholders could be adversely affected.

While Inter Pipeline maintains insurance in respect of damage caused by seepage or pollution in amounts it considers prudent and in accordance with industry standards, certain provisions of such insurance may limit the availability thereof in respect of certain occurrences unless they are discovered within fixed time periods (for example 10 days under Inter Pipeline's current Canadian insurance policies). If Inter Pipeline is unaware of a problem or is unable to locate the problem within the relevant time period, insurance coverage may not be available.

Kyoto Protocol

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol, which will require, upon ratification, nations to reduce their emissions of carbon dioxide and other greenhouse gases. The Governments of Canada, Germany, the United Kingdom and the Republic of Ireland have ratified and signed the Kyoto Protocol. Further legislation may be implemented which sets greenhouse gases emission reduction requirements for various industrial activities, including oil and gas exploration and production, transportation and processing.

As a result of the ratification of the Kyoto Protocol and the adoption of legislation or other regulatory initiatives designed to implement its objectives by government, reductions in greenhouse gases from oil and gas producers, refiners, and petrochemical producers in the geographic areas served by the conventional oil pipeline, oil sands transportation, the NGL extraction and the bulk liquid storage businesses may be required which could result in, among other things, increased operating and capital expenditures for those operators. This may make certain production of crude oil and gas by producers uneconomic resulting in reduced or delayed production or reduced scope in planned new development or expansion projects. The operation of certain refineries and petrochemical plants may also become uneconomic. In addition, the Kyoto Protocol may also result in higher operating and capital costs for the conventional oil pipeline, oil sands transportation, the NGL extraction and the bulk liquid storage businesses.

Abandonment Costs

Inter Pipeline is responsible for compliance with all laws, regulations and relevant agreements regarding the abandonment of the conventional oil pipeline, oil sands transportation (including, indirectly, its proportionate share of costs relating to the Cold Lake L.P.), the NGL extraction and the bulk liquid storage businesses assets at the end of their economic lives, which abandonment costs may be substantial. Abandonment costs are a function of regulatory requirements at the time of abandonment, the characteristics (such as diameter, length and location) of the pipeline or the size and complexity of the extraction plant or storage terminal.

The General Partner may, in the future, determine it prudent to establish and fund one or more reclamation trusts to address anticipated abandonment costs. The payment of the costs of abandonment of the conventional oil pipeline, oil sands transportation, the NGL extraction and the bulk liquid storage businesses assets, or the establishment of reserves for that purpose, would decrease Distributable Cash.

Dependence on Key Personnel

The success of Inter Pipeline will be largely dependent on the skills and expertise of key personnel to manage Inter Pipeline's business. The continued success of Inter Pipeline will be dependent on its ability to hire and retain such personnel. Inter Pipeline does not have any "key man" insurance.

International Operations

A portion of Inter Pipeline's operations are conducted in the United Kingdom, the Republic of Ireland and Germany. Operations outside of Canada are subject to various risks, including: currency exchange rate fluctuations; foreign economic conditions; trade barriers; exchange controls; national and regional labour strikes; political risks and risks of increases in duties; taxes and changes in tax laws; and changes in laws and policies governing operations of foreign-based companies. The occurrence of any adverse international economic conditions could have material adverse effects on Inter Pipeline's cash flows, results of operations or financial condition.

Possible Failure to Realize Anticipated Benefits of Acquisitions

Inter Pipeline has completed a number of acquisitions and as part of its business plan anticipates making additional acquisitions in the future. Achieving the benefits of completed and future acquisitions depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as Inter Pipeline's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Inter Pipeline. The integration of acquired businesses requires the dedication of substantial management effort, time and resources, which may divert management's focus, and resources from other strategic opportunities and from operational matters. The integration process may also result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Inter Pipeline's ability to achieve the anticipated benefits of past and future acquisitions. Acquisitions may expose Inter Pipeline to additional risks including entry into markets or businesses in which Inter Pipeline has little or no direct prior experience, the incurrence of additional debt, costs and contingent liabilities and exposure to liabilities of the acquired business or assets.

RISKS INHERENT IN THE NATURE OF THE LIMITED PARTNERSHIP STRUCTURE

Fluctuating Distributions; Cash Distributions Are Not Guaranteed

Distributions of Distributable Cash by Inter Pipeline will fluctuate and the amount thereof is not guaranteed. Although Inter Pipeline will distribute Distributable Cash, there can be no assurance regarding the amounts thereof. The actual amount thereof will depend upon numerous factors including funds from operations, cash reserves established by the General Partner, general and administrative costs, capital expenditures, dispositions, principal repayments and debt service costs. The General Partner has broad discretion in, among other things, establishing, maintaining and decreasing cash reserves, and its decisions regarding reserves and other matters could have a significant impact on the amount of Distributable Cash. The amount of cash distributed may be less than or greater than the amount of income allocated to Limited Partners for tax purposes.

Nature of the Class A Units

Securities such as Class A units are often associated with investments that provide for returns arising from the pass through of income tax deductions associated with partnership activities and a distribution of distributable cash. Inter Pipeline is not expected to allocate any tax deductions.

The Class A units do not have a guaranteed rate of return and represent a fractional interest in Inter Pipeline. The prices at which the Class A units will trade cannot be predicted. The annual yield on the Class A units as compared to annual yield on other financial instruments may also influence the price of Class A units in the public trading markets. See "BUSINESS RISKS – Risks Inherent in the Nature of the Limited Partnership Structure – Fluctuating Distributions; Cash Distributions Are Not Guaranteed."

One of the factors that may influence the market price of the Class A units is the level of prevailing interest rates relative to the yield achieved by Class A unitholders based on annual distributions on the Class A units. Accordingly, an increase in market interest rates may lead purchasers of Class A units to expect a higher effective yield, which could adversely affect the market price of the Class A units. In addition, the market price for the Class A units may be affected by changes in general market conditions, fluctuations in the markets for equity securities, interest rates and numerous other factors beyond the control of Inter Pipeline.

Responsibility of the General Partner

The General Partner must exercise good faith and integrity in administering the assets and affairs of Inter Pipeline. However, the Inter Pipeline Limited Partnership Agreement ("LPA") contains various provisions that have the effect of restricting the fiduciary duties that might otherwise be owed by the General Partner to Inter Pipeline and the Limited Partners, and waiving or consenting to conduct by the General Partner that might otherwise raise issues as to compliance with fiduciary duties. Unlike the strict duty of a trustee who must act solely in the best interests of his beneficiary, the LPA permits the General Partner to consider the interests of all parties to a conflict of interest, including the interests of the General Partner and of the Shareholder as the sole shareholder of the General Partner. The LPA also provides that in certain circumstances the General Partner will act in its sole discretion, in good faith or pursuant to some other specified standard.

As a result, prospective purchasers of Class A units should carefully consider that the General Partner does not owe to the Class A unitholders the same duties as a trustee would owe to the beneficiaries of a trust.

Conflicts of Interest

Certain conflicts of interest could arise as a result of the General Partner's relationship with PAC and its affiliates, on the one hand, and Inter Pipeline on the other. Such conflicts may include, among others, the following situations: (i) the General Partner's determination of the amount and timing of any capital expenditures, borrowings and reserves; (ii) the issuance of additional Class A units; (iii) payments to affiliates of the General Partner for any services rendered to or on behalf of Inter Pipeline; (iv) agreements and transactions with affiliates of the General Partner as producers and shippers utilizing the Pipelines; (v) the General Partner's determination of which direct and indirect costs are reimbursable by Inter Pipeline; (vi) the enforcement by the General Partner of obligations owed by the General Partner or its affiliates to Inter Pipeline; and (vii) the decision to retain separate counsel, accountants or others to perform services for or on behalf of Inter Pipeline.

Such conflicts of interest may also arise in the conduct of business by affiliates of the General Partner, either currently or in the future, which may be in competition with the business conducted by Inter Pipeline. The General Partner's affiliates are generally not restricted by the LPA from pursuing their own business interests.

Inherent Tax Liability

The assets held directly or indirectly by Inter Pipeline generally have a cost base for applicable income tax purposes that is significantly below the estimated fair market value of such assets and may be significantly below the fair market value of such assets at the time of any disposition thereof in the future. As a result, any disposition of such assets by Inter Pipeline or a partnership in which Inter Pipeline is itself a partner may, depending on the particular circumstances of the disposition and the particular circumstances of Inter Pipeline at the time of such disposition, result in the recapture of previously deducted capital cost allowance and the realization of capital gains by Inter Pipeline which amounts would be allocated among the unitholders for tax purposes. Income or loss for tax purposes, which includes recapture, is allocated to unitholders based on the proportion of cash distributions received by the unitholder in the fiscal year.

Capital Resources

Future expansions of the conventional oil pipeline, oil sands transportation, the NGL extraction and the bulk liquid storage businesses and other capital expenditures will be financed out of cash generated from operations, sales of additional Class A units and borrowings. There can be no assurance that sufficient capital will be available on acceptable terms to Inter Pipeline to fund expansion or other required capital expenditures.

Inter Pipeline's ability to refinance its indebtedness under the credit facility and the General Partner loan will depend upon its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels and financial, competitive, business and other factors, many of which are beyond its control. In addition, there can be no assurance that future borrowings or equity financing will be available to Inter Pipeline, or available on acceptable terms, in an amount sufficient to fund Inter Pipeline's needs. This could, in turn, have a material adverse effect on the business, financial condition and results of operations of Inter Pipeline and the ability of Inter Pipeline to make cash distributions to unitholders.

Leverage

Borrowings made by the General Partner on behalf of Inter Pipeline introduce leverage into Inter Pipeline's business which increases the level of financial risk in the operations of Inter Pipeline and, to the extent interest rates are not fixed, increases the sensitivity of distributions by Inter Pipeline to interest rate variations.

Long-Term Debt Restrictive Covenants

The Credit Facility and General Partner Loan contain numerous restrictive covenants that limit the discretion of Inter Pipeline's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Inter Pipeline to create liens or other encumbrances, to pay distributions or make certain other payments, loans and guarantees, and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the credit facility and General Partner loan contain financial covenants that require Inter Pipeline to meet certain financial ratios and financial condition tests. A failure to comply with the obligations under these agreements could result in a default which, if not cured or waived, could result in a reduction or termination of distributions by Inter Pipeline and permit acceleration of the relevant indebtedness. In addition, in some circumstances it may become necessary to restrict or terminate distributions by Inter Pipeline in order to avoid a default of such obligations.

Sales of Additional Class A Units; Dilution

Inter Pipeline may issue additional Class A units in the future to finance certain of Inter Pipeline's capital expenditures, including acquisitions. The LPA permits Inter Pipeline to issue an unlimited number of additional Class A units without the approval of Class A unitholders. The Class A unitholders, other than the General Partner and its affiliates, have no pre-emptive rights in connection with such additional issues. The General Partner has discretion in connection with the price and the terms of issue of additional Class A units. Any issuance of Class A units may have a dilutive effect on the holders of Class A units.

Limited Voting Rights, Management and Control; Difficulty in Removing General Partner

Class A unitholders generally do not have voting rights in relation to matters involving Inter Pipeline or the General Partner including with respect to the election of directors of the General Partner. The General Partner manages and controls the activities of Inter Pipeline. Class A unitholders have no right to elect the General Partner on an annual or other ongoing basis and, except in limited circumstances, the General Partner may not be removed by the Limited Partners. Directors of the General Partner are elected by PAC, a corporation controlled by John F. Driscoll and the sole shareholder of the General Partner. This risk factor is more fully described in the "Corporate Governance" section of the AIF.

Limited Liability

A Limited Partner may lose the protection of limited liability if it takes part in the control of the business of Inter Pipeline or does not comply with legislation governing limited partnerships in force in provinces where the Class A units are offered for sale or where Inter Pipeline carries on business.

General Partner Indemnity

While the General Partner has agreed to indemnify the Limited Partners in circumstances described in the LPA, the General Partner may not have sufficient assets to honour such indemnification.

NON-GAAP FINANCIAL MEASURES

Certain financial measures referred to in this MD&A, namely "cash distributions", "cash distributions per unit", "Distributable Cash", "enterprise value", "funds from operations", "funds from operations per unit", "growth capital expenditures", "payout ratio", "senior debt to total capitalization", "sustaining capital expenditures", "total debt to total capitalization" and "working capital" are not measures recognized by GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that these non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

The following non-GAAP financial measures are provided to assist investors in determining the ability of Inter Pipeline to generate cash and fund the monthly distributions. Management considers these non-GAAP financial measures to be important indicators in assessing its performance.

Cash distributions are calculated by multiplying the cash distributions per unit by the number of units outstanding at each record date.

Cash distributions per unit are declared by the Board of Directors and are currently paid on a monthly basis to unitholders.

Distributable Cash is an amount calculated in accordance with the terms of the Partnership Agreement.

Enterprise value is calculated by multiplying the period-end closing unit price by the total number of units outstanding and adding debt plus the debt portion of the Debentures. Enterprise value is calculated as follows:

(millions, except per unit amounts)	Years Ended December 31 2005	2004	2003
Closing unit price	**$ 10.05**	$ 9.16	$ 7.76
Total number of partnership units outstanding	**184.6**	180.1	128.8
	1,855.2	1,649.7	999.3
Long-term debt	**805.8**	530.8	102.0
Convertible Debentures	**15.9**	32.5	100.1
Enterprise value	**$ 2,676.9**	$ 2,213.0	$ 1,201.4

Funds from operations is reconciled from net income as seen on the Consolidated Cash Flow Statement and is expressed before changes in non-cash working capital.

Funds from operations per unit is calculated on a weighted average basis using basic units outstanding during the period.

Growth capital expenditures are generally defined as expenditures that are related to system capacity expansions, business growth, volume or revenue increases and/or sustainable operating efficiencies.

Payout ratio is calculated by expressing cash distributions for the period as a percentage of funds from operations for the period.

Senior debt to total capitalization is calculated by dividing long-term debt by the sum of long-term debt, Debentures and total partners' equity.

Sustaining capital expenditures are generally defined as new assets that provide support to operations and/or expenditures that involve an enhancement to existing assets without the associated benefits characteristic of growth capital expenditures.

Total debt to total capitalization is calculated by dividing the sum of long-term debt, Debentures and the conversion feature on Debentures by the sum of long-term debt, Debentures and total partners' equity.

Working capital is calculated by subtracting current liabilities from current assets.

ADDITIONAL INFORMATION

Additional information relating to Inter Pipeline, including Inter Pipeline's AIF, is available on SEDAR at www.sedar.com.

Dated at Calgary, Alberta this 23 day of February, 2006.

Disclaimer

This MD&A highlights significant business results and statistics for Inter Pipeline's three months and year ended December 31, 2005. This information may contain forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by the General Partner of Inter Pipeline at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated. For this purpose, any statements that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expects" and similar expressions. Such risks and uncertainties include, but are not limited to, risks associated with operations, such as loss of markets, regulatory matters, environmental risks, industry competition and the ability to access sufficient capital from internal and external sources. Inter Pipeline assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

The MD&A has been reviewed and approved by the Audit Committee and the Board of Directors of the General Partner. All amounts are stated in Canadian dollars unless otherwise specified.

Management's Responsibility for Financial Reporting

The management of Pipeline Management Inc. (the "General Partner"), the General Partner of Inter Pipeline Fund ("Inter Pipeline"), is responsible for the presentation and preparation of the accompanying consolidated financial statements of Inter Pipeline on pages 52 to 78 and all related financial information in this Annual Report.

The consolidated financial statements have been prepared by the General Partner in accordance with Canadian generally accepted accounting principles and, where necessary, include amounts based on the best estimates and judgments of the management of the General Partner. Financial information presented elsewhere in this Annual Report is consistent with that shown in the accompanying consolidated financial statements.

The management of the General Partner recognizes the importance of Inter Pipeline maintaining high standards in the preparation and dissemination of statements presenting its financial condition. If alternative accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. In discharging its responsibilities for the integrity and reliability of the financial statements, management of the General Partner has developed and maintains a system of accounting and reporting supported by internal controls designed to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

In accordance with the Partnership Agreement, Ernst & Young LLP, an independent firm of chartered accountants, was appointed by the General Partner to audit Inter Pipeline's consolidated financial statements and provide an independent audit opinion. To provide their opinion on the accompanying consolidated financial statements, Ernst & Young LLP review Inter Pipeline's system of internal controls and conduct their work to the extent they consider appropriate.

The Audit Committee, comprised entirely of independent directors, is appointed by the Board of Directors of the General Partner. The Audit Committee meets quarterly to review Inter Pipeline's interim consolidated financial statements and Management Discussion and Analysis and recommends their approval to the Board of Directors. As well, the Audit Committee meets annually to review Inter Pipeline's annual consolidated financial statements and Management Discussion and Analysis and recommends their approval to the Board of Directors. The Board of Directors of the General Partner approves Inter Pipeline's interim and annual consolidated financial statements and the accompanying Management Discussion and Analysis.

Pipeline Management Inc., as General Partner of Inter Pipeline Fund

David W. Fesyk
President and Chief Executive Officer
February 23, 2006

William A. van Yzerloo
Chief Financial Officer

Auditors' Report

TO THE PARTNERS OF INTER PIPELINE FUND

We have audited the consolidated balance sheets of Inter Pipeline Fund as at December 31, 2005 and 2004 and the consolidated statements of partners' equity, net income and cash flows for the years then ended. These financial statements are the responsibility of the management of Pipeline Management Inc. on behalf of the Partnership. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Ernst & Young LLP
Chartered Accountants
February 23, 2006
Calgary, Canada

Consolidated Balance Sheets

(thousands of dollars)	As at December 31 2005	2004 (restated – see Note 2a)
ASSETS		
Current Assets		
Cash	$ **17,525**	$ 4,412
Funds held in trust (note 25(a))	**37,964**	–
Accounts receivable (note 24)	**130,175**	115,471
Prepaid expenses and other deposits	**12,771**	5,592
Current portion of Annual Service Contract Recovery Amounts (note 7)	**–**	2,349
Total Current Assets	**198,435**	127,824
Intangible assets (note 8)	**385,977**	379,562
Property, plant and equipment (note 9)	**1,442,367**	1,232,817
Deferred financing charges (note 10)	**1,753**	2,748
Goodwill	**53,893**	–
Total Assets	**$ 2,082,425**	$ 1,742,951
LIABILITIES AND PARTNERS' EQUITY		
Current Liabilities		
Distributable cash payable (note 11)	$ **11,998**	$ 11,255
Accounts payable and accrued liabilities (note 20)	**135,779**	90,336
Total Current Liabilities	**147,777**	101,591
Long-term debt (note 13)	**805,800**	530,800
Convertible Debentures (note 14)	**15,948**	32,510
Asset retirement obligation (notes 4 and 15)	**16,715**	8,743
Environmental liabilities (note 2(b))	**5,025**	3,580
Pension liabilities (note 16)	**2,060**	–
Future income taxes (notes 4 and 12)	**56,025**	1,007
Total Liabilities	**1,049,350**	678,231
Commitments (notes 2(b), 21 and 22)		
Partners' Equity		
Conversion feature on Convertible Debentures (note 14)	**707**	1,395
Cumulative foreign currency translation	**(9,706)**	–
Partners' equity (note 17)	**1,042,074**	1,063,325
Total Partners' Equity	**1,033,075**	1,064,720
Total Liabilities and Partners' Equity	**$ 2,082,425**	$ 1,742,951

Subsequent Events (notes 17(c), 22 and 25)

See accompanying notes to the Consolidated Financial Statements.

On behalf of the Board of Pipeline Management Inc.,
as General Partner of the Partnership:

John Dmacird — **Director**

W. D. Robertson — **Director**

Consolidated Statements of Partners' Equity

(thousands of dollars)	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Years ended December 31 **2005 Total**	2004 Total
				(restated – see Note 2a)
Balance, beginning of year, as previously reported	**$ 1,062,472**	**$ 1,064**	**$ 1,063,536**	$ 753,510
Retroactive adjustment for change in accounting policy (note 2(a))	**(211)**	**–**	**(211)**	(25)
Balance, beginning of year, as restated	**1,062,261**	**1,064**	**1,063,325**	753,485
Environmental liabilities (note 2(b))	**–**	**–**	**–**	(3,975)
Net income for the year (note 2(a))	**89,168**	**89**	**89,257**	81,092
Cash distributions declared	**(137,551)**	**(138)**	**(137,689)**	(115,594)
Issuance of Partnership units				
Conversion of Debentures (notes 14 and 17)	**17,251**	**16**	**17,267**	71,239
Issued under Distribution Reinvestment and Optional Unit Purchase Plan (note 8)	**3,961**	**4**	**3,965**	2,851
Issued under Unit Incentive Option Plan (note 2(a) and 18)	**5,541**	**6**	**5,547**	4,632
Equity issuances, net of issue costs (note 17)	**–**	**–**	**–**	271,890
Amortization of Debenture issue costs	**(283)**	**–**	**(283)**	(3,637)
Unit-based compensation (note 2(a) and 18)	**684**	**1**	**685**	1,342
Balance, end of year	**$ 1,041,032**	**$ 1,042**	**$ 1,042,074**	$ 1,063,325

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statements of Net Income

(thousands of dollars except per unit amounts)	Years ended December 31 2005	2004
		(restated – see Note 2a)
REVENUES		
Operating revenue	$ **926,938**	$ 482,071
Accretion of discount on Annual Service Contract Recovery Amounts	**53**	288
	926,991	482,359
EXPENSES		
Shrinkage gas	**504,817**	191,176
Operating	**211,662**	100,958
Depreciation and amortization	**61,413**	64,057
Financing charges (note 19)	**35,716**	22,230
General and administrative	**17,525**	10,393
Management fee to General Partner	**3,895**	3,623
Acquisition fee to General Partner (notes 4 and 5)	**2,490**	7,150
Non-cash compensation expense (note 18)	**685**	1,342
	838,203	400,929
INCOME BEFORE INCOME TAXES	**88,788**	81,430
Provision for income taxes (note 12)		
Current income tax expense	**23**	–
Future income tax expense (recovery)	**(492)**	338
	(469)	338
NET INCOME	$ **89,257**	$ 81,092
Net income per Partnership unit (note 17)		
Basic	$ **0.49**	$ 0.52
Diluted	$ **0.48**	$ 0.52

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(thousands of dollars)	Years ended December 31 **2005**	2004
		(restated – see Note 2a)
OPERATING ACTIVITIES		
Net income	$ **89,257**	$ 81,092
Depreciation and amortization	**61,413**	64,057
Amortization of deferred financing charges (note 19)	**853**	3,011
Accretion of discount on Debentures (note 19)	**–**	478
Non-cash compensation expense	**685**	1,342
Non-cash operating expense	**1,445**	–
Non-cash general and administrative expense	**(152)**	–
Future income taxes	**(492)**	338
Accretion of discount on Annual Service Contract Recovery Amounts	**(53)**	(288)
Funds from operations	**152,956**	150,030
Net change in non-cash working capital (note 23)	**18,875**	(16,241)
Cash provided by operating activities	**171,831**	133,789
INVESTING ACTIVITIES		
Funds held in trust	**(38,324)**	–
Acquisition of the bulk liquid storage business (note 4)	**(258,625)**	–
Assumption of cash on the acquisition of the bulk liquid storage business (note 4)	**12,803**	–
Annual Service Contract Recovery Payment (note 7)	**2,402**	6,539
Expenditures on property, plant and equipment	**(22,299)**	(20,997)
Proceeds on sale of assets	**365**	910
Acquisition of the NGL extraction business (note 5)	**342**	(713,416)
Assumption of cash on the acquisition of the NGL extraction business (note 5)	**–**	3,677
Net change in non-cash working capital (note 23)	**(2,095)**	(1,209)
Cash used in investing activities	**(305,431)**	(724,496)
FINANCING ACTIVITIES		
Cash distributions declared	**(137,689)**	(115,594)
Increase in loan payable to General Partner	**–**	379,800
Increase in other long-term debt, net of repayments	**275,000**	49,000
Issuance of Partnership units, net of issue costs	**–**	271,890
Cash received under Distribution Reinvestment and Optional Unit Purchase Plan	**3,965**	2,851
Issuance of units under Unit Incentive Option Plan	**5,547**	4,632
Issuance of Class B units upon Debenture conversions	**16**	71
Deferred financing charges	**(142)**	(4,885)
Net change in non-cash working capital (note 23)	**743**	3,528
Cash provided by financing activities	**147,440**	591,293
Effect of foreign currency translation on cash	**(727)**	–
Increase in cash	**13,113**	586
Cash, beginning of year	**4,412**	3,826
Cash, end of year	$ **17,525**	$ 4,412
Cash interest paid	$ **36,579**	$ 15,047

See accompanying notes to the Consolidated Financial Statements.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(tabular amounts in thousands of dollars, except per unit amounts)

STRUCTURE OF THE PARTNERSHIP

Inter Pipeline Fund ("Inter Pipeline") was formed as a limited partnership under the laws of Alberta pursuant to an agreement dated October 9, 1997 (the "Partnership Agreement"). Pursuant to the Partnership Agreement, Pipeline Management Inc. (the "General Partner") is required to maintain a 0.1% interest in the Partnership. Inter Pipeline is dependent on the General Partner for the administration and management of all matters relating to the operation of Inter Pipeline. Inter Pipeline is comprised of four industry operating segments located in two geographic segments: conventional oil pipeline business, oil sands transportation business, NGL extraction business and bulk liquid storage business, as discussed below in the Segment Reporting policy.

Under the Partnership Agreement, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the Partnership Agreement. In addition, the General Partner is entitled to earn an annual incentive fee of between 15% and 35% of Inter Pipeline's annual Distributable Cash in excess of $1.01 per unit to $1.19 per unit respectively; an acquisition fee of 1.0% of the purchase price of any assets acquired by Inter Pipeline (excluding the pipeline assets originally acquired); and a disposition fee of 0.5% of the sale price of any assets sold by Inter Pipeline.

Inter Pipeline currently distributes, on a monthly basis, Distributable Cash to holders of the Class A limited liability partnership units ("Class A units") and Class B unlimited liability partnership units ("Class B units") (collectively the "Partnership units"). Distributable Cash is defined in the Partnership Agreement and generally means net income of Inter Pipeline, adjusted for non-cash items and further adjusted for certain reserves, and is intended to allow Inter Pipeline to retain cash as required to meet its ongoing liquidity and capital requirements.

As Inter Pipeline is currently structured, the General Partner holds a 0.1% partnership interest in Inter Pipeline as represented by Class B Units. Public investors hold the remaining 99.9% partnership interest as limited partners, which interest is represented by Class A Units. The General Partner's 0.1% partnership interest is controlled by Pipeline Assets Corp. ("PAC").

The General Partner is a wholly owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain of the officers and a director of the General Partner have non-voting shares in PAC that entitles them to dividends. The entitlement to retain these shares of PAC and to receive dividends is tied to the continuing employment or service as a director of the General Partner.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles, have in management's opinion been properly prepared within reasonable limits of materiality and the framework of the accounting principles described below. Amounts are stated in Canadian dollars unless otherwise indicated. Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

The consolidated financial statements include the accounts of Inter Pipeline and its subsidiaries. Inter Pipeline's investment in the Cold Lake Pipeline Limited Partnership (the "Cold Lake Partnership") and its general partner, Cold Lake Pipeline Ltd. are accounted for using the proportionate consolidation method whereby Inter Pipeline's 85% proportionate share of assets, liabilities, revenues and expenses are included in the accounts, and are presented as the oil sands transportation business in the segment reporting (note 6). Inter Pipeline's interest in all other subsidiaries are accounted for using the consolidation method.

Segment Reporting

Inter Pipeline determines its reportable segments based on the nature of its operations and geographic location, which is consistent with how the business is managed.

Industry Segments

Inter Pipeline changed its policy for segment reporting effective January 1, 2005, to separate the previously reported Pipeline Business into the oil sands transportation business and the conventional oil pipeline business. This change has been made to distinguish the contractual-based results of operations of the oil sands transportation business from the conventional oil pipeline business. These segments' operations are still primarily the transportation, storage and processing of hydrocarbons, however the revenues and costs are derived differently and therefore they are being evaluated and managed separately.

The conventional oil pipeline business is primarily the transportation, storage and processing of hydrocarbons. The oil sands transportation business is a heavy blend and condensate pipeline system that operates under long-term contracts with a limited number of customers. The NGL extraction business consists of processing natural gas to extract natural gas liquids including ethane ("C2") and a mixture of propane, butane and pentanes plus ("C3+ mix"). The bulk liquid storage business activity comprises primarily the storage and handling of bulk liquid products through the operation of seven deep water bulk liquid storage terminals located in the United Kingdom and the Republic of Ireland; complementary services are provided through its bulk liquid distribution, engineering, training and facilities management divisions.

Geographic Segments

Inter Pipeline has two geographic segments, Canada and the United Kingdom. The bulk liquid storage business is located in the United Kingdom, while all other operating segments are in Canada.

Revenue Recognition

Conventional Oil Pipeline Business

Revenues associated with the transportation, storage and processing of hydrocarbons on the conventional gathering systems are recognized as the service is provided.

Oil Sands Transportation Business

The Cold Lake Partnership recognizes its capital fee revenues based on services provided to each founding shipper with an adjustment, if necessary, to reflect each shipper's minimum "Ship-or-Pay" revenue commitment. In addition, the Cold Lake Partnership recognizes an operating fee equivalent to substantially all of the Cold Lake Partnership's operating costs.

NGL Extraction Business

Inter Pipeline recognizes revenue when the earnings process is complete. This is generally when products are shipped to the customer in accordance with the terms of the sales contract, title or risk of loss has been transferred, and pricing is either fixed or determinable.

Bulk Liquid Storage Business

Revenues derived from the storage and handling of bulk liquid products and provision of complementary services are recognized as the services are provided to third party customers by Inter Pipeline's subsidiaries.

Investment in Annual Service Contract Recovery Amounts

The carrying value of Inter Pipeline's investment in Annual Service Contract Recovery Amounts is the present value of the future payments discounted using a 5% per annum factor. An amount reflecting the accretion of the interest component of the present value is included in income. The carrying value of the investment is tested for impairment by reviewing the financial reports and other public information of its counterparties, to determine their financial ability to pay the committed amounts. Inter Pipeline reflects its remaining investment in the Annual Service Contract Recovery Amounts as a short-term investment with future receipts recorded as interest earned on the principal and a recovery of the principal.

Intangible Assets

Transportation Services Agreement

The Transportation Services Agreement ("TSA") is amortized on a straight-line basis over the estimated service life of thirty years of the Cold Lake Partnership's pipeline facilities and equipment to which the TSA relates. The carrying value of the investment in the TSA is tested for impairment by reviewing the financial reports and other public information of its counterparties, to determine their financial ability to pay the committed amounts.

Customer Contracts
The NGL Extraction business intangible assets consist of customer contracts for the sales of C2 and C3+ mix. The contracts include fee-based contracts, cost of service contracts and profit-sharing arrangements. The value of these contracts, calculated assuming anticipated renewals, is estimated to be realized over an average period of 30 years since the date of acquisition, which is the period over which amortization is being charged using the straight-line method.

The bulk liquid storage business intangible assets are primarily customer contracts for the storage and handling of bulk liquid products. The intangibles also include customer relationships, tradename and software. These assets are being amortized over the estimated life of the contracts, which range from 20 to 30 years.

Patent
A patent that is an operational process utilized in one of the extraction facilities is being amortized over its remaining term of 14 years from the date of acquisition of the NGL extraction business.

Goodwill
Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less write down for impairment. If the carrying value of the bulk liquid storage business exceeds its fair value, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its fair market value. During each fiscal year and as economic events dictate, management reviews the valuation of goodwill, taking into consideration any events or circumstances which might have impaired the fair value.

Property, Plant and Equipment
Pipeline Facilities and Equipment
Expenditures on the conventional gathering system's expansion and betterments are capitalized. Maintenance and repair costs, as well as pipeline integrity verification and repair costs, are expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are placed in commercial operation.

Effective January 1, 2005, Inter Pipeline has amended its estimates for calculating depreciation on the pipeline facilities and equipment of the gathering system of the conventional oil pipeline business. It was determined that due to a change in circumstances and experience gained in the last few years, the straight-line method of depreciation would better reflect a matching of the depreciation of the pipeline assets to the decline in the revenue-producing volume throughput of these assets. The estimated remaining service life of these assets has also been re-evaluated and revised to 30 years to better reflect the number of years over which these pipeline facilities and equipment will be in operation, which is also tied in to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems.

The oil sands transportation business' property, plant and equipment consist of pipelines and related facilities. Depreciation of the capital costs less estimated salvage value is calculated on a straight-line basis over the estimated service life of the assets which is 30 years.

NGL Extraction Plants and Equipment
Plant, property and equipment of the NGL extraction business are comprised primarily of three extraction plants and associated equipment. Expenditures on the plants' expansion or betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the extraction plants and additions thereto is charged once the assets are placed in commercial operation, and is calculated using the straight-line basis over the estimated useful life of the assets which is 30 years.

Storage Facilities and Equipment
The bulk liquid storage business' property, plant and equipment consist of storage facilities and associated equipment. Depreciation of the capital costs is calculated on a straight-line basis over the estimated service life of the assets which is 30 years.

Deferred Receipt Facilities Expenditures

Expenditures incurred to design and construct crude petroleum receipt facilities on the properties of third party operators, to be owned and operated by the respective third party operators, have been capitalized as they provide a benefit to Inter Pipeline over the life of the contracts with the third party operators. Such expenditures are referred to as deferred receipt facilities expenditures. The costs are amortized on a straight-line basis over the term of the agreements with the third party operators. Amortization commences when the facilities begin commercial operations.

Deferred Financing Charges

The commitment fees and associated underwriting costs related to Inter Pipeline's long-term debt are initially deferred and then are amortized over the term of the related facility. When a facility is repaid and cancelled, any associated unamortized costs are fully written off in the same period as the cancellation.

The issue costs related to Inter Pipeline's issuance of 10% Convertible Extendible Unsecured Subordinated Debentures (the "Debentures") have been deferred and are being amortized over the five year term of the Debentures, but accelerated for conversions.

Debentures

The Debentures are classified as a liability with the exception of the portion relating to its conversion feature which is classified as an equity component, resulting in the carrying value of the Debentures being less than their face value. This discount is being accreted over the term of the Debentures utilizing the effective interest rate method and the 11% interest rate implicit in the Debentures. The equity component is reclassified to Partners' Equity at the time of conversion of the Debentures into Class A units with the related interest expensed as incurred and issue costs amortized over the term of the Debentures.

Asset Retirement Obligations

The accounting for asset retirement obligations is for the legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction or development and/or the normal operations of a long-lived asset. The retirement of a long-lived asset is it's other than temporary removal from service, including its sale, abandonment, recycling or disposal in some manner but not its temporary idling.

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to income, or until Inter Pipeline settles the obligation. In addition, the asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset, and depreciated over the asset's useful life.

Conventional Oil Pipeline Business and Oil Sands Transportation Business

The property, plant and equipment of the conventional oil pipeline and oil sands transportation businesses consist primarily of underground pipelines and above ground equipment and facilities. No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to reasonably estimate the fair value of the liability due to the indeterminate timing and scope of the asset retirements. As the timing and scope of retirements become determinable for certain or all assets, the fair value of the liability and the cost of retirement will be recorded. Pipeline operations will be charged with any costs associated with the future site restoration of the pipeline assets. The potential costs of future site restoration will be a function of several factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right-of-way.

NGL Extraction Business and Bulk Liquid Storage Business

NGL extraction and the bulk liquid storage businesses consist mainly of three NGL extraction plants and seven bulk liquid storage facilities, respectively. Inter Pipeline's asset retirement obligation represents the expected cost to be incurred upon the termination of operations and closure of these active facilities. The estimated costs for asset retirement obligations include such activities as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the plant sites.

Environmental Liabilities

Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation cost can be reasonably estimated. Recoveries from third parties which are likely of realization are separately recorded and are not offset against the related environmental liability.

Pension Plans

The cost of pension benefits earned by certain of the Simon Storage employees covered by the defined benefit pension plans is actuarially determined using the projected benefit method prorated on services and management's best estimate of expected plan investment performance, final pensionable salary, terminations, and retirement ages of plan members. Plan assets are valued at fair value for the purpose of determining the expected return on plan assets. Adjustments for plan amendments are expensed over the expected average remaining service life of the employee group, which is approximately 14 years and 16 years for certain of the United Kingdom and the Republic of Ireland employees, respectively. Actuarial gains and losses arise from changes in assumptions and differences between assumptions and the actual experience of the pension plans. The excess of accumulated actuarial gains and losses over 10% of the greater of the benefit obligation and the fair value of plan assets is also charged to operations over the expected average remaining service life of the employee group.

The costs of pension benefits provided to certain Simon Storage employees covered by defined contribution pension plan arrangements are expensed as the contributions are incurred in the reporting period.

Income Taxes

Current Income Taxes

Under existing tax legislation, Inter Pipeline is not subject to income taxes directly. The limited partners and the General Partner are subject to tax on their proportionate interests of the taxable income allocated by Inter Pipeline.

Certain of Inter Pipeline's subsidiaries are taxable corporations in Canada, the United Kingdom, Germany and the Republic of Ireland.

Future Income Taxes

Inter Pipeline's future income tax liability arises due to its consolidation of the Simon Storage and Tanklager-Gesellschaft Hoyer mbH ("TLG") businesses and the proportionate consolidation of its 85% ownership in Cold Lake Pipeline Ltd., the General Partner of the Cold Lake Partnership.

Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax basis of assets and liabilities measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Under the liability method, future income taxes are also provided on the difference between the accounting and tax basis of investments.

The future tax liability is calculated using the substantively enacted tax rates and laws that will be in effect when these temporary timing differences are expected to reverse as required by the liability method of accounting for income taxes. The effect of future changes in income tax rates will be recognized in net income in the period in which the change occurs.

Unit-based Compensation

Effective December 2005, Inter Pipeline retroactively adopted the fair value method of accounting for unit-based compensation. This change is as a result of additional guidance published in Canada and the United States surrounding the accounting for stock based compensation, particularly with respect to the valuation methods used under the fair value method of valuing options.

Under the fair value method, the value of each of the unit incentive options ("Options") is determined on the date of grant using a binomial option pricing model, and that value is amortized over the vesting period of the Options as a charge to the Consolidated Statements of Net Income, with a corresponding increase

recorded in the Consolidated Statements of Partners' Equity. Inter Pipeline previously valued the Options using the intrinsic value method, whereby the resulting net change in the number of vested Class A Units outstanding combined with the net change in the value of the Class A Units, from reporting period to reporting period, is recorded in the Consolidated Statements of Net Income in each reporting period.

The fair value consideration paid to Inter Pipeline upon the exercise of options is credited to Partners' Equity to reflect the units issued.

Foreign Currency Translation
With the acquisition of Simon Storage on October 4, 2005 and TLG on January 1, 2006, Inter Pipeline has implemented an accounting policy for foreign currency translation. Inter Pipeline has determined that Simon Storage and TLG are self-sustaining operations. Therefore, the accounts of Simon Storage and TLG are translated using the current rate method, whereby assets and liabilities are translated at period-end exchange rates, while revenues and expenses are translated using average rates over the period. Translation gains and losses relating to these self-sustaining operations are included as a separate component of Partners' Equity.

Measurement Uncertainty
The amounts recorded for depreciation of property, plant and equipment, amortization of deferred receipt facilities expenditures and the projections of future site restoration and abandonment costs are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

Financial Instruments
Financial instruments of Inter Pipeline consist of cash, funds held in trust, accounts receivable, prepaid expenses and other deposits, Investment in Annual Service Contract Recovery Amounts, Distributable Cash payable, accounts payable and accrued liabilities, income taxes payable, long-term debt and Debentures. There are no material differences between the carrying amounts of these financial instruments reported on the balance sheet and their estimated fair values, with the exception of the Debentures.

Inter Pipeline utilizes derivative financial instruments to manage its exposure to market risks relating to power prices, commodity prices and interest rates. Inter Pipeline's policy is not to utilize derivative financial instruments for speculative purposes, and procedures are in place with respect to the required documentation and approvals required for the use of derivative financial instruments.

Upon adoption of the new Accounting Guideline, Hedging Relationships, Inter Pipeline formally documents all relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. Inter Pipeline assesses, on an ongoing basis, whether the derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions. There was no impact on the consolidated financial statements as a result of this.

Derivative contracts accounted for as hedges are not recognized in the Consolidated Balance Sheets. Gains and losses incurred on these contracts are recognized in income in the same period as the hedged transactions are settled. Should the hedges cease to be effective, the fair value of the derivative financial instruments will be recognized as a deferred asset or liability on the Consolidated Balance Sheets and the recognition of the changes in fair value will be recognized in income.

2. CHANGES IN ACCOUNTING POLICY

(a) Unit-based Compensation

Effective December 2005, Inter Pipeline retroactively adopted the fair value method of accounting for unit-based compensation. This change is as a result of additional guidance published in Canada and the United States surrounding the accounting for stock based compensation, particularly with respect to the valuation methods used under the fair value method of valuing options.

The restatement will increase net income in each of the years ended December 31, 2005, 2004 and 2003. The impact of the change in accounting policy is:

Change in Consolidated Balance Sheets

Increase (decrease)	December 31 **2005**	2004
Accounts payable and accrued liabilities	**$ 475**	$ 211
Partners' equity	**(475)**	(211)
Total liabilities and Partners' equity	**$ –**	$ –

Change in Consolidated Statements of Net Income

Increase (decrease)	December 31 **2005**	2004
Non-cash compensation expense	**$ (13,170)**	$ (9,297)
Management fee to General Partner	**264**	186
Total expenses	**(12,906)**	(9,111)
Net income	**$ 12,906**	$ 9,111
Net income per Partnership unit – Basic and diluted	**$ 0.07**	$ 0.06

(b) Environmental Liabilities

In 2004, the Partnership adopted a new Accounting Policy for recognition of Environmental Liabilities, as required by the new accounting standard in section 1100 of the CICA Handbook "Generally accepted accounting principles." This new standard states that industry practice is not considered to be a source of GAAP, and where a company's policy using industry practice conflicts with GAAP, that policy should be changed to conform with GAAP. Upon adoption of this new accounting policy, the Partnership has recognized an estimate for environmental obligations. Prior to the adoption, these types of liabilities had not been recognized due to industry practice, and instead amounts incurred for environmental remediation programs were expensed in the period incurred. The impact of this adoption at December 31, 2004 was to decrease Partners' equity by $4.0 million, increase Accounts payable and accrued liabilities by $0.4 million and increase Environmental liabilities by $3.6 million.

3. CHANGE IN ESTIMATE

Effective January 1, 2005, Inter Pipeline has amended its estimates for calculating depreciation on the pipeline facilities and equipment of the conventional oil pipeline business. It was determined that due to a change in circumstances and experience gained in the last few years, the straight-line method of depreciation would better reflect a matching of the depreciation of the pipeline assets to the decline in the revenue-producing volume throughput of these assets. The estimated remaining service life of these assets has also been re-evaluated and revised to 30 years to better reflect the number of years over which these pipeline facilities and equipment will be in operation, which is also tied in to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems. The impact of this change in 2005 is to decrease depreciation and amortization expense and increase net income by $17.0 million.

4. ACQUISITION OF BULK LIQUID STORAGE BUSINESS

On October 4, 2005, Inter Pipeline acquired all of the outstanding shares of Simon Storage for cash consideration of $258.6 million (£120 million plus closing adjustments and acquisition costs of £4.6 million). The acquisition was funded through an existing revolving credit facility (see note 13 – Long-term Debt). Concurrent with this transaction, an acquisition fee of $2.5 million was paid to the General Partner, pursuant to the terms of the Partnership Agreement.

The acquisition was accounted for by the purchase method as at the closing date of October 4, 2005. Inter Pipeline allocated the purchase price as follows:

Cash	$ 12,803
Non-cash working capital deficiency	(7,694)
Intangible assets – customer contracts (note 8)	21,123
Goodwill	55,813
Property, plant and equipment (note 9)	237,296
Asset retirement obligation	(948)
Pension liability	(2,289)
Future tax liability	(57,479)
	$ 258,625

The acquisition costs are still being finalized and therefore the purchase price allocation is likely to be amended.

5. ACQUISITION OF NGL EXTRACTION BUSINESS

On July 28, 2004, Inter Pipeline acquired interests in three natural gas liquids ("NGL") extraction plants for $715 million less closing adjustments and acquisition costs of $1.9 million, for a net cash consideration paid of $713.1 million. The purchase was financed through $443 million of long-term debt (note 13) and a portion of the proceeds from the issuance of 38.0 million Class A units (note 17). Concurrent with this transaction, an acquisition fee of $7.2 million was paid to Pipeline Management Inc, the General Partner, pursuant to the terms of the Partnership Agreement.

The acquisition was accounted for by the purchase method as at the closing date of July 28, 2004. Inter Pipeline allocated the purchase price as follows:

Cash	$ 3,677
Working capital deficiency	(3,401)
Intangible assets – Customer contracts and patent (note 8)	296,339
Property, plant and equipment (note 9)	424,966
Asset retirement obligation (note 15)	(8,507)
	$ 713,074

6. SEGMENT REPORTING

Inter Pipeline operates its business under the following principal business segments:

2005	Oil Sands Transportation Business	Conventional Oil Pipeline Business	NGL Extraction Business	Corporate	Total Canadian Operations	UK Bulk Liquid Storage Business	Total Canadian and UK Operations
Revenues	$ 62,704	$ 109,873	$ 724,011	$ 53	$ 896,641	$ 30,350	$ 926,991
Expenses							
Shrinkage gas	–	–	504,817	–	504,817	–	504,817
Operating	17,662	32,260	143,414	–	193,336	18,326	211,662
Depreciation and amortization	16,047	18,806	24,566	–	59,419	1,994	61,413
Financing charges	–	–	–	35,661	35,661	55	35,716
General and administrative	–	–	–	14,922	14,922	2,603	17,525
Management fee to General Partner	–	–	–	3,895	3,895	–	3,895
Acquisition fee to General Partner	–	–	–	2,490	2,490	–	2,490
Non-cash compensation expense	–	–	–	685	685	–	685
Total Expenses	33,709	51,066	672,797	57,653	815,225	22,978	838,203
Income before income taxes	28,995	58,807	51,214	(57,600)	81,416	7,372	88,788
Income taxes (recovery)	193	–	–	–	193	(662)	(469)
Net Income	$ 28,802	$ 58,807	$ 51,214	$ (57,600)	$ 81,223	$ 8,034	$ 89,257
Expenditures on property, plant and equipment	$ (384)	$ (13,890)	$ (3,656)	$ –	$ (17,930)	$ (4,369)	$ (22,299)
Total Assets	$ 456,430	$ 471,158	$ 780,434	$ –	$1,708,022	$ 374,403	$ 2,082,425

2004	Oil Sands Transportation Business	Conventional Oil Pipeline Business	NGL Extraction Business	Corporate	Total Canadian Operations	Liquid Storage Business	UK BulkTotal Canadian and UK Operations
Revenues	$ 73,318	$ 108,496	$ 300,257	$ 288	$ 482,359	$ –	$ 482,359
Expenses							
Shrinkage gas	–	–	191,176	–	191,176	–	191,176
Operating	15,532	29,928	55,498	–	100,958	–	100,958
Depreciation and amortization	15,589	38,180	10,288	–	64,057	–	64,057
Financing charges	–	–	–	22,230	22,230	–	22,230
General and administrative	–	–	–	10,393	10,393	–	10,393
Management fee to General Partner	–	–	–	3,623	3,623	–	3,623
Acquisition fee to General Partner	–	–	–	7,150	7,150	–	7,150
Non-cash compensation expense	–	–	–	1,342	1,342	–	1,342
Total Expenses	31,121	68,108	256,962	44,738	400,929	–	400,929
Income before income taxes	42,197	40,388	43,295	(44,450)	81,430	–	81,430
Income taxes (recovery)	338	–	–	–	338	–	338
Net Income	$ 41,859	$ 40,388	$ 43,295	$ (44,450)	$ 81,092	$ –	$ 81,092
Expenditures on property, plant and equipment	$ (14,360)	$ (6,431)	$ (206)	$ –	$ (20,997)	$ –	$ (20,997)
Total Assets	$ 476,433	$ 475,692	$ 790,826	$ –	$1,742,951	$ –	$1,742,951

7. INVESTMENT IN ANNUAL SERVICE CONTRACT RECOVERY AMOUNTS

In 2005, Inter Pipeline received net payments of $2.4 million (2004 – $6.5 million), related to its net investment in the Annual Service Contract Recovery Amounts. As at December 31, 2005, no Annual Service Contract Recovery Amounts remain to be received from the Cold Lake Partnership.

8. INTANGIBLE ASSETS

	Cost	Accumulated Depreciation & Amortization	December 31 **2005** **Net Book Value**	2004 Net Book Value
Oil sands transportation business				
Transportation Services Agreement	**$ 93,548**	**$ (9,667)**	**$ 83,881**	$ 87,107
NGL extraction business				
Customer contracts	**287,612**	**(13,587)**	**274,025**	283,988
Patent	**8,727**	**(883)**	**7,844**	8,467
Bulk liquid storage business				
Customer contracts	**20,397**	**(170)**	**20,227**	–
	$ 410,284	**$ (24,307)**	**$ 385,977**	$379,562

9. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation & Amortization	December 31 2005 Net Book Value	2004 Net Book Value
Conventional oil pipeline system facilities and equipment	**$ 759,511**	**$ (311,331)**	**$ 448,180**	$ 452,191
Oil sands transportation system facilities and equipment	**372,545**	**(37,105)**	**335,440**	347,855
NGL extraction plants and equipment	**431,718**	**(19,578)**	**412,140**	416,624
Bulk liquid storage business facilities and equipment	**232,235**	**(591)**	**231,644**	–
Oil sands transportation system pipeline linefill	**10,384**	**–**	**10,384**	10,384
Deferred receipt facilities expenditures	**6,231**	**(5,070)**	**1,161**	2,384
Spare parts	**3,418**	**–**	**3,418**	3,379
	$1,816,042	**$ (373,675)**	**$1,442,367**	$1,232,817

Property, plant and equipment costs above include $17.0 million (2004 – $2.2 million), related to construction in progress for which no depreciation or amortization has been recorded in the current year.

10. DEFERRED FINANCING CHARGES

	Cost	Accumulated & Amortization	December 31 2005 Net Book Value	2004 Net Book Value
Loan Payable to General Partner	**$ 1,991**	**$ (238)**	**$ 1,753**	$ 1,851
$400 million Unsecured Revolving Credit Facility	**603**	**(603)**	**–**	479
Debentures	**6,021**	**(6,021)**	**–**	418
	$ 8,615	**$ (6,862)**	**$ 1,753**	$ 2,748

11. DISTRIBUTABLE CASH PAYABLE

As at December 31, 2005, distributions of $12.0 million are payable, representing 184.4 million outstanding Class A units and 0.2 million outstanding Class B units at $0.065 per unit. (December 31, 2004 – $11.3 million payable representing 179.9 million outstanding Class A units and 0.2 million outstanding Class B units at $0.0625 per unit).

12. INCOME TAXES

The components of income before taxes are summarized below:

	2005	2004
Canada	**$ 84,757**	$ 81,431
United Kingdom	**4,031**	–
	$ 88,788	$ 81,431

Income tax expense (recovery) varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to income before incomes taxes as shown in the following table:

	2005	2004
Net Income before income taxes per financial statements	**$ 88,788**	$ 81,431
Less: non taxable Canadian partnership income	**(84,051)**	(80,463)
Adjusted income before taxes	**4,737**	968
Tax rate	**33.62%**	34.62%
	1,592	335
Difference in Canadian and UK tax rates	**(170)**	–
Applied losses	**(2,539)**	–
Other	**648**	3
Tax (recovery) expense	**$ (469)**	$ 338

The provision for income taxes is summarized as follows:

	2005	2004
Current		
United Kingdom	**$ 23**	$ –
	23	–
Future		
Canada	**193**	338
United Kingdom	**(685)**	–
	(492)	338
	$ (469)	$ 338

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future tax years that are likely to be realized.

The tax effects of deductible temporary differences that give rise to future tax amounts are as follows:

	2005	2004
Difference between book values and tax values of:		
Property, plant & equipment	**$ 48,375**	$ –
Intangible assets	**6,068**	–
Working capital	**381**	–
Cold Lake Pipeline Ltd.'s Investment in Cold Lake Partnership	**1,478**	1,430
Tax losses in Cold Lake Pipeline Ltd.	**(277)**	(423)
	$ 56,025	$ 1,007

13. LONG-TERM DEBT

	December 31 2005	2004
Loan Payable to General Partner (a)	**$ 379,800**	$ 379,800
$500 million Unsecured Revolving Credit Facility (b, c, d)	**426,000**	151,000
	$ 805,800	$ 530,800

(a) On October 28, 2004, Inter Pipeline borrowed $379.8 million from the General Partner with the following terms:

- $91.2 million due 2012, 5.85%; and
- $288.6 million due 2014, 6.15%.

On this date, the General Partner had received $379.8 million by way of a Private Placement note issuance to a combination of American and Canadian institutional investors and immediately loaned the funds to Inter Pipeline. These proceeds were then used to partially repay the $443 million Unsecured Non-Revolving Facility used to acquire the NGL extraction business (note 5).

This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for a nominal interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. $2.0 million of financing costs were incurred by the General Partner and charged to Inter Pipeline, at which time they were deferred (note 10).

Inter Pipeline has ultimately guaranteed the notes issued by the General Partner to the note holders. The guarantee would be exercised in the event of default pursuant to the terms of the Note Purchase Agreement.

(b) On September 30, 2005, the $400 million Unsecured Revolving Credit Facility was increased to $500 million, with a portion of the incremental amount being utilized to fund the acquisition of the bulk liquid storage business (note 4). This facility is fully revolving for a period of three years from September 30, 2005, and enables funds to be borrowed, repaid and reborrowed within the revolving period. The revolving period may be extended at any time with the agreement of the lenders, but it cannot exceed three years from the date of the extension.

Amounts borrowed under this facility bear interest at a floating rate based on bankers' acceptances plus 75 basis points provided Inter Pipeline maintains its current credit rating while fees on undrawn amounts are equal to 15 basis points per annum. If Inter Pipeline's credit rating changes, the interest rate could increase by up to 75 basis points or reduce by up to 37.5 basis points.

The $400 million Unsecured Revolving Credit Facility, which was utilized to repay a portion of the $443 million Unsecured Non-Revolving Credit Facility, had been entered into on October 29, 2004. The revolving period extended to October 24, 2005, however it could have been extended for an additional 364 day period on an annual basis with the agreement of the lenders. If the revolving period was not extended, the facility would have converted to a non-revolving facility with a two-year maturity. Interest on amounts borrowed under this facility were charged at a floating rate based on bankers' acceptances plus 87.5 basis points provided Inter Pipeline maintained its current credit rating, while fees on undrawn amounts were equal to 17.5 basis points per annum. Under the terms of this facility, if Inter Pipeline's credit rating changed, the interest rate could increase by up to 87.5 basis points or reduce by up to 37.5 basis points.

(c) On July 28, 2004, Inter Pipeline entered into a $443 million Unsecured Non-Revolving Credit Facility which was fully utilized on that date to partially fund the acquisition of the NGL extraction business (note 5). This facility had a twelve month term and bears interest only on drawn amounts at a floating rate based on bankers' acceptances plus 87.5 basis points. On October 28, 2004, this facility was fully repaid with proceeds from the loan from the General Partner and the new $400 million Unsecured Revolving Credit Facility. (see (a))

(d) In 2005, Inter Pipeline had a net increase of $275 million in its long-term debt, with the entire increased drawn amount being on the $500 million Unsecured Revolving Credit Facility.

(e) Inter Pipeline had nil issued and outstanding letters of credit at December 31, 2005 (2004 – nil).

14. 10% CONVERTIBLE EXTENDIBLE UNSECURED SUBORDINATED DEBENTURES

Effective December 18, 2002, Inter Pipeline issued $138.0 million of Debentures for net proceeds of $132.5 million. The Debentures had an initial maturity date of February 15, 2003, which was extended to December 31, 2007, with the acquisition of the Cold Lake Partnership.

The Debentures bear interest at 10% per annum, payable semi-annually on June 30 and December 31 of each year. The Debentures are not collateralized and are subordinated to substantially all other liabilities of Inter Pipeline including Inter Pipeline's credit facilities.

The Debentures are convertible at the option of the holder into Class A units at any time prior to December 31, 2007 at a conversion price of $6.00 per Class A unit. The Debentures are not redeemable by Inter Pipeline before December 31, 2005. From January 1, 2006 to December 31, 2006, the Debentures may be redeemed in whole or in part at the option of Inter Pipeline at a price equal to their principal amount plus accrued and unpaid interest, provided that the market price of the Class A units meets certain criteria.

Subsequent to December 31, 2006, the Debentures may be redeemed by Inter Pipeline in whole or in part at a price equal to the principal amount, plus accrued and unpaid interest.

At the option of Inter Pipeline, the repayment of the principal amount of the Debentures may be settled with Class A units. The number of Class A units to be issued upon redemption by Inter Pipeline will be calculated by dividing the principal by 95% of the market price. The interest payable may also be settled with the issuance and sale of sufficient Class A units to satisfy the interest obligation. At December 31, 2005, the Debentures outstanding had a fair market value of $26.1 million.

	Discounted Obligation, Net of Accretion	Equity Component	Total
Balance at December 31, 2003	$ 100,117	$ 4,478	$ 104,595
Conversions into Class A units in 2004	(68,085)	(3,083)	(71,168)
Accretion of discount	478	–	478
Balance at December 31, 2004	32,510	1,395	33,905
Conversions into Class A units in 2005	**(16,562)**	**(688)**	**(17,250)**
Balance at December 31, 2005	**$ 15,948**	**$ 707**	**$ 16,655**

The determination of the equity component of Inter Pipeline's Debentures utilized the "Black Scholes model" based on the following key assumptions:

Risk-free rate of return	4.06%
Expected volatility of Class A units trading value	20%
Expected cash yield of Class A units	10%
Expected term of conversion option to expiry	5 years

15. ASSET RETIREMENT OBLIGATIONS

The total undiscounted amount of estimated expenditures expected to be incurred on closure of active plants is $170.7 million, which was calculated using an inflation rate of 2% (NGL extraction business only) and an expected life of 40 years. A credit-adjusted risk-free rate of 6.4% was used to discount the estimated future cash flows for the retirement of the NGL extraction business assets, while a credit-adjusted risk-free rate of 7.8% was used to discount the estimated future cash flows for the retirement of the bulk liquid storage business assets. These obligations are not expected to occur for many years and will be funded from Inter Pipeline's resources at that time.

The following table shows the movement in the liability for asset retirement obligations:

	2005	2004
Obligation at beginning of year	**$ 8,743**	$ –
Additions to liabilities	**7,371**	8,507
Accretion expense	**601**	236
Obligation at end of year	**$ 16,715**	$ 8,743

At December 31, 2005, $0.7 million is included in accounts payable and accrued liabilities for asset retirement obligations related to the retirement of property, plant and equipment in the conventional oil pipeline business (December 31, 2004 – $0.4 million).

16. PENSION PLANS

Inter Pipeline acquired Simon Storage through an acquisition that was completed on October 4, 2005 (note 4). At that time, the full amount of the pension plan deficits were recognized on Inter Pipeline's consolidated balance sheet and there were no unrecognized gains or losses.

United Kingdom

Inter Pipeline operates a funded pension plan, the Simon Storage Pension Fund (the "Fund"), providing benefits for its employees based primarily on years of service and final pensionable salary. The Fund is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Fund was carried out as at April 6, 2004. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the accounting date, with the obligation measured using the projected benefit method.

Republic of Ireland

Inter Pipeline operates a funded pension plan, the Irish Bulk Liquid Storage Limited Retirement and Death Benefits Scheme (the "Scheme") providing benefits for its employees based on years of service and final pensionable salary. The Scheme is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Scheme was carried out as at September 1, 2004. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the accounting date, with the obligation measured using the projected benefit method.

Both the Fund and the Scheme (collectively the "Pension Plan") will have the valuations updated in 2007.

The actual distribution of the Pension Plan assets by market value as of December 31, 2005 is as follows:

Pension Plan Assets by Asset Category	United Kingdom	Republic of Ireland
Equity securities	**59%**	–
Debt securities	**21%**	–
Real estate	**17%**	–
Cash	**3%**	–
Deferred annuity contract	–	**100%**
Total	**100%**	**100%**

For the Fund, the assets are shown at their mid market value at the accounting date. The deferred annuity contract in the Scheme was valued assuming that the bonus rate granted over 2005 gave a total return of 5.5% for the year.

The significant actuarial assumptions adopted in measuring Inter Pipeline's accrued benefit obligations as of December 31, 2005 are as follows:

Weighted-Average Assumptions for Expense	United Kingdom	Republic of Ireland
Discount rate	**5.1%**	**4.2%**
Rate of price inflation	**2.7%**	**2.0%**
Rate of compensation increase	**4.2%**	**4.0%**
Rate of increase to pensions in payment	**2.6%**	**3.0%**
Expected long-term rate of return on pension plan assets	**6.5%**	**5.5%**
Expected average remaining service life	**14 years**	**16 years**

Weighted-Average Assumptions for Disclosure	United Kingdom	Republic of Ireland
Discount rate	**4.8%**	**4.2%**
Rate of price inflation	**2.7%**	**2.0%**
Rate of compensation increase	**4.2%**	**4.0%**
Rate of increase to pensions in payment	**2.6%**	**3.0%**
Expected long-term rate of return on pension plan assets	**6.3%**	**5.5%**
Expected average remaining service life	**14 years**	**16 years**

Net pension expense attributable to the Pension Plan for the period October 4 to December 31, 2005 includes the following components:

Components of Net Periodic Pension Cost	United Kingdom	Republic of Ireland	Total
Current service cost for benefits earned	$ 1,403	$ 18	$ 1,421
Interest cost on benefit obligations	730	15	745
Actual return on pension plan assets	(2,528)	(14)	(2,542)
Actuarial loss on accrued benefit obligation	3,748	–	3,748
Costs arising in the period	3,353	19	3,372
Differences between costs arising in the period and costs recognized in the period in respect of:			
Return on pension plan assets	1,633	–	1,633
Actuarial gain	(3,748)	–	(3,748)
Net periodic pension cost recognized	$ 1,238	$ 19	$ 1,257

The following tables set forth the Pension Plan's funded status and amount included in the accrued liability on Inter Pipeline's balance sheet at December 31, 2005.

Change in Accrued Benefit Obligation	United Kingdom	Republic of Ireland	Total
Accrued benefit obligation at October 4, 2005	$ 57,671	$ 1,440	$ 59,111
Current service cost (total)	1,403	18	1,421
Employee contributions	170	–	170
Interest cost	730	15	745
Benefits paid	(168)	(8)	(176)
Actuarial loss	3,748	–	3,748
Foreign currency adjustments	(2,122)	(28)	(2,150)
Accrued benefit obligation at December 31, 2005	$ 61,432	$ 1,437	$ 62,869

Change in Pension Plan Assets	United Kingdom	Republic of Ireland	Total
Fair value of pension plan assets at October 4, 2005	$ 55,749	$ 1,074	$ 56,823
Actual return on pension plan assets	2,528	14	2,542
Employer contributions	1,391	25	1,416
Employee contributions	170	–	170
Benefits paid	(168)	(8)	(176)
Foreign currency adjustments	(2,010)	(21)	(2,031)
Fair value of pension plan assets at December 31, 2005$	57,660	$ 1,084	$ 58,744

Reconciliation of Funded Status to Accrued Benefit Liability	United Kingdom	Republic of Ireland	Total
Funded status – Deficits at end of year	$ (3,772)	$ (353)	$ (4,125)
Unamortized net actuarial loss	2,115	–	2,115
Foreign currency adjustments	(50)	–	(50)
Accrued benefit liability	$ (1,707)	$ (353)	$ (2,060)

Unamortized net actuarial gains or losses are recognized, to the extent that they exceed 10% of the greater of the accrued benefit obligation and the fair value of pension plan assets, over the average remaining service period of active members.

17. PARTNERS' EQUITY

Units Issued and Outstanding

Authorized

Unlimited number of Class A limited liability units
Unlimited number of Class B unlimited liability units

Issued and Outstanding	Class A Units	Class B Units	Total
Balance as at December 31, 2003	128,649,498	128,794	128,778,292
Issued on conversion of Debentures (note 14)	11,861,304	11,916	11,873,220
Equity issuance (a)	37,950,000	37,989	37,987,989
Issued under Distribution Reinvestment and Optional Unit Purchase Plan (b)	372,580	385	372,965
Issued under Unit Incentive Option Plan (note 18)	1,078,113	1,133	1,079,246
Balance as at December 31, 2004	179,911,495	180,217	180,091,712
Issued on conversion of Debentures (note 14)	**2,648,468**	**2,695**	**2,651,163**
Issued under Distribution Reinvestment and Optional Unit Purchase Plan (b)	**427,469**	**438**	**427,907**
Issued under Unit Incentive Option Plan (note 18)	**1,420,144**	**1,505**	**1,421,649**
Balance as at December 31, 2005	**184,407,576**	**184,855**	**184,592,431**

(a) Issuance of Units in 2004

On July 28, 2004, Inter Pipeline issued 37,950,000 Class A units at a price of $7.55 per Class A unit for net proceeds of $271.6 million. To maintain the required 0.1% interest in Inter Pipeline, the General Partner acquired 37,989 Class B units at a price of $7.55 per Class B unit.

(b) Reinvestment and Optional Unit Purchase Plan

Pursuant to the Distribution Reinvestment and Optional Unit Purchase Plan (the "Plan"), unitholders may elect to receive Class A units instead of cash for payment of their distribution and/or purchase additional units, at a price representing a 5% discount to the weighted-average closing trading price for the 10 trading days immediately preceding the distribution date. As a result, for 2005, 424,226 Class A units and 429 Class B units were issued with a value of $3.9 million (2004 – 241,321 Class A units and 249 Class B units with a value of $1.9 million). In addition, a nominal amount of cash was received for optional unit purchases of 3,243 Class A units (2004 – $1.0 million of cash received for 131,259 Class A units). To maintain the required 0.1% interest in Inter Pipeline, the General Partner acquired 9 Class B units (2004 – 136 Class B units) at the same discounted price. Effective with the June, 2004 distributions, the 5% discount was no longer available under the Plan with respect to purchasing additional units, but remains in place for the reinvestment of distributions.

(c) Subsequent Issuance of Units

On January 31, 2006, Inter Pipeline issued 15 million Class A units at $10.00 per Class A unit. The net proceeds of $142.5 million, excluding issuance costs were applied to reduce the outstanding debt. To maintain the required 0.1% interest in Inter Pipeline, the General Partner acquired 15,016 Class B units at a price of $10.00 per Class B unit.

Calculation of Net Income Per Partnership Unit

Partnership units share equally on a pro rata basis in the allocation of net income. The number of units outstanding is calculated using the Treasury Stock method based on the weighted-average number of units outstanding for the period as follows:

	December 31 **2005**	December 31 2004
Net income attributable to unitholders	**$ 89,257**	$ 81,092
Weighted-average units outstanding – Basic	**182,739,323**	154,629,894
Effect of unit options	**1,804,706**	1,536,916
Weighted-average units outstanding – Diluted*	**184,544,029**	156,166,810
Net income per Partnership unit – Basic	**$ 0.49**	$ 0.52
Net income per Partnership unit – Diluted	**$ 0.48**	$ 0.52

* The conversion of Debentures have an anti-dilutive impact for both years presented, therefore they are not included in the calculation of diluted net income per Partnership unit.

18. UNIT-BASED COMPENSATION PLAN

In 2003, the Board of Directors of the General Partner established a Unit Incentive Option Plan (the "Option Plan") whereby 7,312,680 Class A units have been reserved for issuance under the Option Plan. Options to purchase Class A units are granted to directors, officers, employees and consultants of the General Partner. The exercise price of the options is equal to the current market price at the date of grant, subject to an incentive reduction. The options have a five-year term with one third of the options vesting immediately on the date of grant and one third on each of the first and second anniversary dates thereafter.

The Option Plan provides for an incentive reduction in the exercise price of the options by the amount by which Inter Pipeline's total return per unit in each calendar year exceeds a prescribed threshold return for such calendar year. The threshold return is determined annually and is equal to 350 basis points over the 10-year Canada bond rate multiplied by the closing price of the units on the Toronto Stock Exchange (the "TSX") at the beginning of the year. The total return is the sum of the difference between the closing price of the units on the TSX at the end of the year or on the date of exercise, and the exercise price on the grant date, plus the cumulative dollar amount of distributions per unit declared during the year.

The following table summarizes the status of Inter Pipeline's Option Plan as at December 31, 2005 and 2004, and changes during the years then ended:

	Number of Options	Weighted-Average Exercise Price*	Weighted-Average Adjusted Exercise Price**
Options outstanding, December 31, 2003	4,113,367	$ 6.42	$ 5.05
Options granted	1,513,500	$ 8.17	$ 7.48
Options exercised	(1,078,113)	$ 6.39	$ 3.44
Options cancelled	(195,674)	$ 6.55	$ 3.86
Options outstanding, December 31, 2004	4,353,080	$ 7.04	$ 4.93
Options granted	**186,000**	**$ 10.31**	**$ 10.13**
Options exercised	**(1,420,144)**	**$ 6.74**	**$ 3.36**
Options cancelled	**(72,335)**	**$ 7.31**	**$ 4.88**
Options outstanding, December 31, 2005	**3,046,601**	**$ 7.37**	**$ 4.65**

* The weighted-average exercise price based on the exercise price on the date of grant.

** The weighted-average exercise price adjusted for the incentive reduction.

The following table summarizes information about unit options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Adjusted Exercise Prices	Number of Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price*	Number of Options	Weighted-Average Exercise Price*
$2.00 – $3.00	1,355,754	2.1 years	$ 2.17	1,355,754	$ 2.17
$4.12 – $5.56	821,513	3.1 years	$ 4.72	620,832	$ 4.52
$7.89 – $10.48	869,334	4.1 years	$ 8.44	508,822	$ 8.21
	3,046,601	2.9 years	$ 4.65	2,485,408	$ 4.00

* The weighted-average exercise prices shown for options outstanding and exercisable at the end of the period are adjusted for the incentive reduction.

The fair value of each unit option is estimated on the date of grant using the Binomial option pricing method. The weighted average fair values of the options granted during the year and the weighted-average assumptions used in their determination are as follows:

	2005	2004	2003
Annual distribution yield	**7.4%**	9.1%	11.2%
Risk free interest rate	**3.04%**	3.32%	3.50%
Expected life	**3 years**	3 years	3 years
Expected volatility	**17.0%**	17.0%	18.6%
Weighted-average fair value per option	**$ 1.35**	$ 0.96	$ 0.78

19. FINANCING CHARGES

	2005	2004
Interest expense (a, b)	**$ 9,578**	$ 9,674
Interest on loan payable to General Partner (note 13)	**23,084**	4,104
Interest on Debentures (note 14)	**2,201**	4,963
Amortization of deferred financing charges (note 10)	**853**	3,011
Accretion of discount on Debentures (note 14)	**–**	478
Total financing expenses	**$ 35,716**	$ 22,230

(a) During 2005, Inter Pipeline incurred $9.6 million in respect of interest costs on its credit facilities (2004 – $9.7 million), including $0.4 million in respect of fees on undrawn amounts (2004 – $0.2 million). Its average interest rate for the year equated to 3.68% on average borrowings of $197.2 million (2004 – 3.16% on $232.4 million).

(b) In 2005, the cash settlements on the interest rate swap contracts were $2.1 million (2004 – $2.4 million).

20. RELATED PARTY TRANSACTIONS

No revenue was earned from related parties for the years ended December 31, 2005 and 2004.

Inter Pipeline has entered into a support agreement that enables Inter Pipeline to request PAC, the shareholder of the General Partner and its affiliates to provide certain personnel and services to the General Partner to fulfill its obligations to administer and operate Inter Pipeline's business. Such services are incurred in the normal course of operations and amounts paid for such services are at fair value for the services provided. No amounts were paid in 2005 and 2004 under the support agreement.

Amounts due from/to the General Partner and its affiliates related to their services are non-interest bearing and have no fixed repayment terms, with the exception of the loan payable to the General Partner (note 13). At December 31, 2005, $0.3 million was owed to the General Partner by Inter Pipeline (December 31, 2004 – $0.5 million).

The General Partner has earned $0.2 million from Inter Pipeline in interest income during the year (2004 – nil) on a net basis, after paying interest expense to the ultimate note holders.

In 2005, certain of the officers and a director of the General Partner received a total of $0.7 million in dividends from PAC pursuant to their non-voting shares (2004 – $0.3 million).

21. COMMITMENTS

Minimum Lease Payments

Inter Pipeline has entered into lease agreements for office space, storage and property to 2029. The future minimum lease payments for these lease agreements are:

2006	$	5,788
2007		5,334
2008		4,246
2009		3,531
2010		2,901
Thereafter		25,044
	$	46,844

22. RISK MANAGEMENT

Inter Pipeline has not recognized assets or liabilities associated with the swap contracts outstanding at December 31, 2005 and 2004, because the hedging relationships meet the conditions for hedge accounting.

Frac Spread Risk Management

In August 2004, Inter Pipeline established a hedging program to sell certain quantities of NGL products at fixed prices to third party counter parties and buy related quantities of natural gas at fixed prices from third party counter parties in order to manage commodity price ("frac spread") risk in its NGL extraction business. The NGL price swap agreements are calculated based on US dollar prices. Therefore, Inter Pipeline has also entered into foreign exchange contracts to sell US dollars in order to convert notional US dollar amounts related to the hedged NGL revenues.

There were no contracts outstanding at December 31, 2005.

Contracts outstanding at December 31, 2004 were as follows:

NGL Swaps	Average Price (US$/US gallon)	Average Quantity (b/d)	Hedged Period
Propane	0.765	3,531	January 1, 2005 – September 30, 2005
Normal Butane	0.875	615	January 1, 2005 – September 30, 2005
Iso Butane	0.873	381	January 1, 2005 – September 30, 2005
Pentanes Plus	1.078	305	January 1, 2005 – September 30, 2005

	Average Price (Cdn$/GJ)	Average Quantity (GJ/day)	Hedged Period
Natural gas swaps	7.252	19,487	January 1, 2005 – September 30, 2005

	Average Price (US$/Cdn$)	Average Monthly Notional Amount (US$ thousands)	Hedged Period
Foreign exchange swaps	0.769	5,421	January 1, 2005 – March 31, 2005

The fair market value of the frac spread swap contracts resulted in unrecognized gains/(losses) at December 31 as follows:

US$	2005	2004
NGL swaps	$ –	$ 2,286

Cdn$	2005	2004
Natural gas swaps	–	(6,071)
Foreign exchange swaps	–	1,592
Unrecognized gain (loss)	$ –	$ (4,479)

The net settlements on the frac spread swap contracts recognized in income were:

	2005	2004
NGL swaps	$ (15,982)	$ (492)
Natural gas swaps	5,516	(1,028)
Foreign exchange swaps	3,529	3,924
Net settlement on frac spread swaps	$ (6,937)	$ 2,404

In January 2006, Inter Pipeline hedged approximately 34% of forecast propane plus volumes at the Cochrane extraction plant for the three months ended March 31, 2006 at an average price of approximately $0.32 Cdn/US gallon. This average price would approximate $0.28 US/US gallon based on the average US$/Cdn$ forward curve as at February 22, 2006. As at February 23, 2006, contracts outstanding were as follows:

NGL Swaps	Average Price (US$/US gallon)	Average Quantity (b/d)	Hedged Period
Propane	0.976	5,000	February 1, 2006 – March 31, 2006
Normal Butane	1.230	890	February 1, 2006 – March 31, 2006
Iso Butane	1.245	551	February 1, 2006 – March 31, 2006
Pentanes Plus	1.533	441	February 1, 2006 – March 31, 2006

	Average Price (Cdn$/GJ)	Average Quantity (GJ/day)	Hedged Period
Natural gas swaps	9.076	27,797	February 1, 2006 – March 31, 2006

	Average Price (US$/Cdn$)	Average Monthly Notional Amount (US$ thousands)	Hedged Period
Foreign exchange swaps	0.863	9,098	February 1, 2006 – March 31, 2006

Interest Rate Risk Management

Inter Pipeline has entered into a series of interest rate swap agreements with a Canadian chartered bank to manage its interest rate price risk exposure on floating rate bank loans. At December 31, 2005, the swap agreements total $61 million (2004 – $62 million).

Maturity Date	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance
September 30, 2006	5.41%	$ 15,000
December 31, 2011	6.31%	15,000
December 31, 2011	6.30%	31,000
		$ 61,000

The fair market value of the outstanding swap contracts as at December 31, 2005, results in an unrecognized loss of $5.1 million (2004 – $6.3 million). The notional principal balance of the 6.30% swap amount is reduced by $1.0 million per year for the term of the arrangement.

Power Price Risk Management

Electricity Price Swap Contracts

Inter Pipeline has entered into a series of electricity price swap contracts to manage electricity price exposure in its conventional oil pipeline business. Contracts outstanding at December 31 were as follows:

As at December 31, 2005 **Hedged Period**	Average Price ($/MW.h)	Quantity (MW)
January 1, 2006 – December 31, 2006	49.50	5.0
January 1, 2007 – December 31, 2007	52.75	5.0
January 1, 2008 – December 31, 2008	54.00	2.5

As at December 31, 2004 **Hedged Period**	Average Price ($/MW.h)	Quantity (MW)
January 1, 2005 – December 31, 2005	46.95	5.0
January 1, 2006 – December 31, 2006	49.50	5.0

The fair market value of these contracts results in an unrecognized gain of $1.7 million at December 31, 2005 (December 31, 2004 – nil).

The net settlements on the electricity price swap contracts recognized in income in 2005 were $1.0 million (2004 – $0.3 million).

Heat Rate Swap Contracts

Subsequent to year end, Inter Pipeline entered into a financial heat rate swap contract to manage electricity price risk exposure in the NGL extraction business. The contract is for a notional quantity of 14.0 MW of electric power per hour for the period January 1, 2006 to December 31, 2006, at a price equal to 6.90 GJs/MW.h multiplied by the AECO monthly index price. These contracts will not be accounted for as hedges and will be marked to market each reporting period.

Credit Risk Management

Credit exposure on financial instruments arises from the possibility that a counter-party in which Inter Pipeline has an unrealized gain fails to perform according to the terms of the contract. Inter Pipeline believes the risks of non-performance are minimal as the counter-party on the interest rate, NGL, natural gas and foreign exchange swaps is a major financial institution. The electricity price and heat rate swaps are with investment grade counter-parties.

23. CHANGES IN NON-CASH WORKING CAPITAL

	Years ended December 31 **2005**	 2004
Accounts receivable	**$ (14,704)**	$ (83,605)
Prepaid expense and other deposits	**(7,179)**	(2,796)
Distributable cash payable	**743**	3,528
Accounts payable and accrued liabilities	**45,443**	73,404
Working capital deficiency acquired	**(6,892)**	(4,058)
Impact of foreign exchange rate difference	**112**	–
Adoption of Environmental Liabilities policy – current portion	–	(395)
Changes in non-cash working capital	**$ 17,523**	$ (13,922)

These changes relate to the following activities:

		Years ended December 31	
		2005	2004
Operating		**$ 18,875**	$ (16,241)
Investing		**(2,095)**	(1,209)
Financing		**743**	3,528
Changes in non-cash working capital		**$ 17,523**	$ (13,922)

24. MAJOR CUSTOMERS

In 2005, Dow Chemical Canada, NOVA Chemicals and BP Canada, the principal customers of the NGL extraction business, accounted for 79% (2004 – NOVA Chemicals and BP Canada, two customers of the NGL extraction business, accounted for 60%) of Inter Pipeline's consolidated revenue. Inter Pipeline believes the financial risk associated with these customers is minimal.

25. SUBSEQUENT EVENTS

(a) On January 1, 2006, Inter Pipeline, through its wholly-owned subsidiary, Simon Storage, acquired all of the outstanding shares of TLG, an independent bulk liquid storage business located in Mannheim, Germany. The cash consideration for this transaction was approximately $38 million (€27 million), plus closing adjustments, which was funded from Inter Pipeline's existing credit facilities. At December 31, 2005, $38.0 million of cash was held in trust pending the closing of this acquisition on January 1, 2006.

(b) On February 7, 2006, Inter Pipeline announced that it has entered into an agreement to purchase an 85% interest in the Cactus Lake pipeline system from Nexen Marketing, a division of Nexen Inc. The cash consideration for this transaction is $20 million. Funding for the acquisition will be provided from existing bank credit facilities.

The acquisition is subject to certain closing conditions including the waiver or expiry of certain rights of first refusal by the current owner of the Cactus Lake pipeline system. Assuming such rights of first refusal are waived or not exercised, it is anticipated that closing will take place on or about March 1, 2006.

(c) Effective January 1, 2006, Inter Pipeline implemented a new long term incentive plan ("LTIP") for its employees, officers, and directors of the General Partner. The LTIP is governed by a Unit Appreciation Rights Plan ("UARP") document that defines how awards made under the UARP will be determined and administered.

A Unit Appreciation Right ("UAR"), as granted under the UARP, is valued based on Inter Pipeline's unit price plus credit for cash distributions paid to unitholders during the period the UAR's are held. The UAR will vest as to one third on each of the successive anniversary dates from the date of grant. Upon exercise of a UAR, the amount owing will be paid out in cash net of applicable withholding taxes.

The total number of grants issued effective January 1, 2006 were 432,000 with a fair value on that date of $4.3 million.

FORWARD-LOOKING INFORMATION

In the interest of providing investors with information regarding Inter Pipeline, including management's assessment of future plans and operations, certain statements and graphs throughout this annual report contain "forward-looking statements." You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will occur. Although Inter Pipeline believes that the expectations represented by such forward-looking statements are reasonable at the time of their preparation, there can be no assurance that such expectations will prove to be correct. Inter Pipeline assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinion change or for future events or otherwise. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this annual report include, but are not limited to: risks associated with operations; loss of market; regulatory matters; the volatility of crude oil prices; light-to-heavy crude oil price differentials; hazards inherent in the crude oil transportation business, such as the liability for damages and expenses incurred by unintended discharges; increased obligations imposed by new or revised regulations; environmental risks; industry competition; fluctuations in interest rates; risks associated with realizing the value of acquisition and expansions; general economic, market and business conditions; the availability of sufficient capital from internal and external sources and such other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Inter Pipeline. You are cautioned that the foregoing list of important factors is not exhaustive. The forward-looking statements contained in this annual report are expressly qualified by this precautionary statement.

Only persons who are residents of Canada, or if partnerships, are Canadian partnerships, in each case for purposes of the Income Tax Act (Canada) are entitled to purchase and own Class A units and 10% Convertible Extendible Unsecured Subordinated Debentures of Inter Pipeline Fund.

Inter Pipeline Fund's Statement of Corporate Governance is included in Inter Pipeline Fund's Annual Information Form, which can be viewed at www.sedar.com.

ABBREVIATIONS

Bcf	billion cubic feet
Bbls	barrels
b/d	barrels per day
NGL	natural gas liquids
Km	kilometres
GJ	gigajoules
Bcf/d	billion cubic feet per day
MW.h	megawatt hour

DEFINITIONS

EBITDA

EBITDA is reconciled from net income by adding back depreciation and amortization, financing charges, non-cash compensation expense, acquisition fees, future income taxes and current income taxes and is calculated on an annualized basis.

Unitholder Return

Total unitholder return is calculated by taking the difference between the end of the year market price and the beginning of the year market price and dividing it by the beginning of the year market price. To this return yield is added the yield obtained by dividing the cash distributions per unit for the year by the beginning of the year market price to obtain the overall return.

Corporate Information

BOARD OF DIRECTORS

John F. Driscoll
Toronto, ON
Chairman of the Board
JF Driscoll Investment Corp.

H. (Bert) Alfaro [1,3,4]
Calgary, AB
Chairman of the Governance Committee
Independent Businessman

Bernie J. Bradley [2,3,4]
Calgary, AB
Chairman of the Compensation Committee
Independent Businessman,
formerly executive with EnCana Pipelines Ltd.

John A. Brussa [2]
Calgary, AB
Partner
Burnet, Duckworth & Palmer LLP

Jeffery E. Errico
Calgary, AB
President & Chief Executive Officer
Petrofund Energy Trust

J. Lindsay Milne [1,3,4]
Calgary, AB
Chairman of the EH&S Committee
Independent Businessman

William D. Robertson [1,2]
Calgary, AB
Chairman of the Audit Committee
Retired Chartered Accountant

(Appointed as of January 1, 2006)

David W. Fesyk
Calgary, AB
President and Chief Executive Officer
Inter Pipeline Fund

Nicholas O. Brigstocke
Midhurst, West Sussex, UK
Independent Businessman

1 *member of the Audit Committee*
2 *member of the Compensation Committee*
3 *member of the Environmental, Health & Safety Committee*
4 *member of the Governance Committee*

OFFICERS

David W. Fesyk
President and Chief Executive Officer

William A. van Yzerloo
Chief Financial Officer

David Williams
Vice President, Operations

Christian P. Bayle
Vice President, Corporate Development

Scott D. Gerla
Vice President, Financial Reporting & Compliance

Paul J. Murphy
Vice President, NGL Extraction

Jeremy A. Roberge
Vice President, Capital Markets

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10% Convertible Extendible Unsecured Subordinated
Debentures trade under the symbol IPL.DB

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